2016
ANNUAL REPORT

Great projects
Great companies

Caisse de dépôt et placement
du Québec

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Great projects
Great companies

Investing with a business owner mindset. That's our approach to creating long-term value for our clients, the depositors. It means investing based on deep convictions. And focusing on quality assets rooted in the real economy.

We believe sustainable returns are generated by fundamental economic trends and insights into the sectors and businesses in which we invest. With operational excellence and our capacity to innovate, we help build great projects and great companies.

2016 HIGHLIGHTS

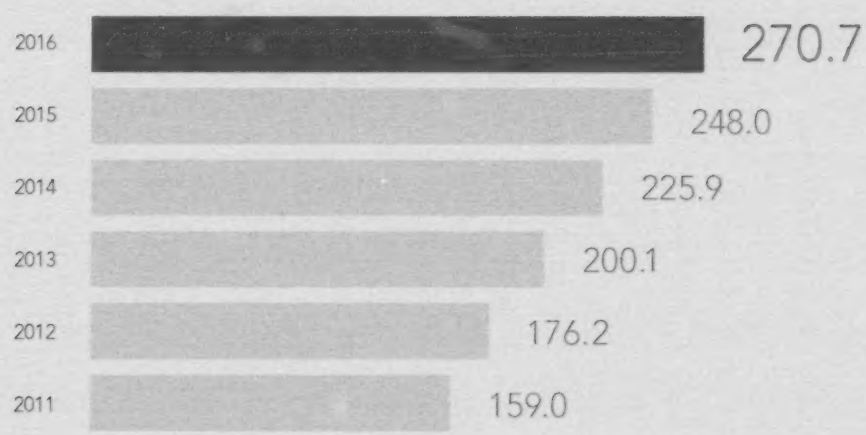
Net assets

as at December 31, 2016

$270.7 B

CAISSE NET ASSETS FROM 2011 TO 2016

(in billions of dollars)



10.2%

FIVE-YEAR
ANNUALIZED RETURN

$100 B

NET INVESTMENT
RESULTS OVER
FIVE YEARS

7.6%

2016 RETURN

$18.4 B

NET INVESTMENT
RESULTS IN 2016

AAA

HIGHEST CREDIT RATINGS REAFFIRMED

The DBRS, Standard & Poor's and Moody's ratings agencies have reaffirmed the credit ratings of la Caisse and CDP Financial with a stable outlook.

GLOBAL FOOTPRINT

We invest in the real economy

by focusing on tangible assets and working with world-class partners

$179 B

CAISSE EXPOSURE TO GLOBAL MARKETS, UP $106 BILLION SINCE THE END OF 2011

Some of our 2016 achievements

/1

DP WORLD

The creation of a $5-billion investment platform – in partnership with a major port operator – targeting global ports and port terminals. Caisse's interest: 45%.

/2

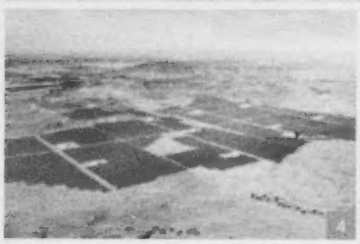
EUROFINS

EUR 200-million investment in this world leader in analytical laboratory testing, based in Europe.

/3

1211 AVENUE OF THE AMERICAS

Acquisition, with Callahan Capital Properties, of the remaining stake in this iconic Manhattan office tower.



/4

AZURE POWER GLOBAL

A 21% interest in this Indian company which ranks among the country's largest solar power producers.

/5

LOGOS

Investment in this Australian real estate company, established in China and which owns and develops logistics properties in Shanghai and key Asia-Pacific cities.

/6

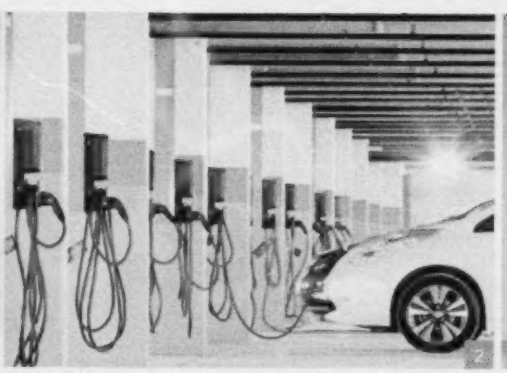
GREENSTONE FINANCIAL SERVICES

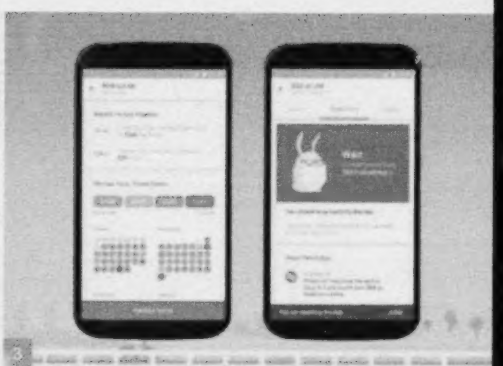
A 44% interest in this Australian insurance distribution leader.

ROOTED IN QUÉBEC

We support SMEs in the new economy

to maximize their impact and accelerate their growth





/1
TRIOTECH

A $40-million investment to accelerate the global growth of this company which designs, manufactures and markets rides based on a multi-sensorial experience.

/2
ADDÉNERGIE

An $8.5-million investment for the Canada-wide growth of the network and the development of technology for this designer and manufacturer of smart charging solutions for electric vehicles.

/3
HOPPER

A $40-million investment to foster the international growth of this mobile app, which was ranked many times as one of the travel industry's 10 best.

WE BELIEVE that economic development stems from two essential sources: the growth and transformation of medium and large businesses in traditional industries, as well as the further expansion of promising sectors of the new economy, such as green energy, new media, artificial intelligence and electric transportation systems.

/4

FELIX & PAUL STUDIOS

Investment by Fonds Espace CDPQ in this cinematic virtual reality experience studio: $1.3 million.

/5

STINGRAY DIGITAL GROUP

A further investment of $16 million in this multi-platform musical services leader.

/6

MOMENT FACTORY

Overall financing of $18 million in the creation of a new entity dedicated to permanent multimedia infrastructure projects.

BEHIND OUR CLIENTS ARE QUEBECERS

Our diversified investments

contribute to our clients' financial stability and to Quebecers' wealth

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DEPOSITORS
ENTRUST THEIR
FUNDS TO LA CAISSE

They are primarily retirement funds and insurance plans.

TOGETHER THEY
DISTRIBUTE BENEFITS
TO MORE THAN

2 million Quebecers

For the complete list of our depositors, see page 26.

FOR OUR EIGHT PRINCIPAL DEPOSITORS WE GENERATED RETURNS THAT VARY BETWEEN:

6.3% and 8.2%
IN 2016

8.7% and 11.4%
OVER FIVE YEARS

Finances Québec Retirement Plans Sinking Fund	RREGOP Government and Public Employees Retirement Plan	Retraite Québec
Commission de la construction du Québec Supplemental Pension Plan for Employees of the Québec Construction Industry	OUR PRINCIPAL DEPOSITORS	CNESST Commission des normes, de l'équité, de la santé, et de la sécurité du travail
Société de l'assurance automobile Québec Société de l'assurance automobile du Québec	Finances Québec Generations Fund	RRPE Pension Plan of Management Personnel

RESULTS BY ASSET CLASS

We focus on quality assets
in all categories

RESULTS BY ASSET CLASS
Five-year and one year returns

EQUITY

14.0%
OVER FIVE YEARS

10.4%
IN 2016

FIXED INCOME

3.7%
OVER FIVE YEARS

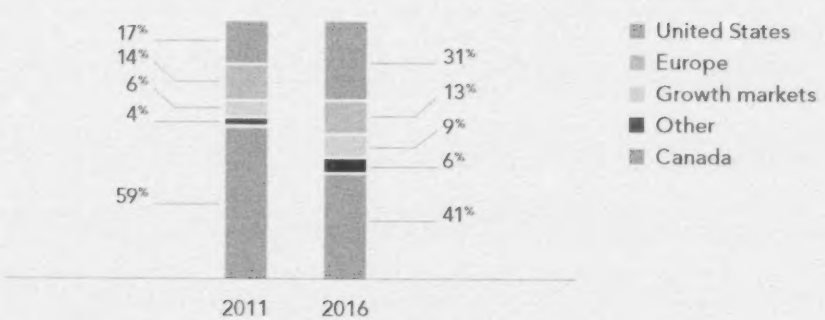
2.9%
IN 2016

REAL ASSETS

11.5%
OVER FIVE YEARS

10.6%
IN 2016

GEOGRAPHIC EXPOSURE OF THE OVERALL PORTFOLIO
As at December 31

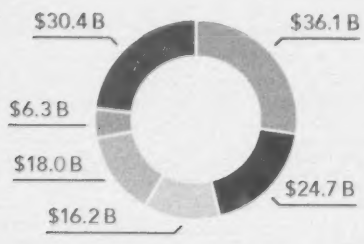


Equity

$131.7 B

NET ASSETS

NET ASSETS BY PORTFOLIO AND MANDATE
As at December 31, 2016



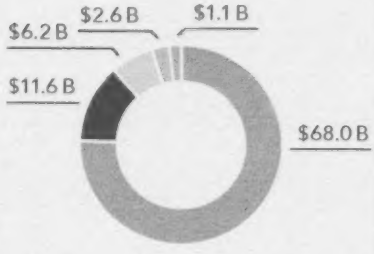
- Global Quality
- Canada
- Growth Markets
- Alternative Beta
- Other
- Private Equity

Fixed Income

$89.5 B

NET ASSETS

NET ASSETS BY PORTFOLIO
As at December 31, 2016



- Bonds
- Real Estate Debt
- Short Term Investments
- Long Term Bonds
- Real Return Bonds

Real Assets

$46.4 B

NET ASSETS

NET ASSETS BY PORTFOLIO
As at December 31, 2016

- Real Estate
- Infrastructure

OUR 2016 ACHIEVEMENTS

Principal achievements during 2016 fall under the four priorities established by la Caisse for purposes of its annual strategic planning.

Absolute-return management

Investing for the long term, with strong convictions based on in-depth analysis

2016 ACHIEVEMENTS

- Consolidation of the equity portfolios into a single specialized portfolio, divided into six mandates
- Implementation of the Alternative Beta mandate, whose strategy consists of attributing a weight to each security in the portfolio based on different measures rather than on its market capitalization
- Development of a Global Value strategy, focused on buying securities of businesses that are priced low, relative to their fundamental value
- Reorganization of the Bonds and Real Estate Debt portfolios to create the Rates and Credit portfolios as at January 1, 2017 in order to diversify sources of value, increase expected return, and customize exposure to government bonds for each of the depositors

Less-liquid assets

Increase investments in less-liquid assets such as real estate, infrastructure and private equity

2016 ACHIEVEMENTS

- Continued the global deployment of this type of asset, in a selective manner, increasing less-liquid asset portfolios' exposure outside of Canada to 70% by the end of 2016
- Transaction volume (acquisitions and sales) of $25.2 billion in less-liquid assets
- In real estate, investments of $5.8 billion, notably in the office sectors in New York and Chicago, residential sector in San Francisco and London, and shopping centres in British Columbia
- Completion of one of the largest real estate transactions in Europe in 2016 with the sale of P3 Logistic Parks, in partnership with TPG
- Private equity investments totalling $7.8 billion, including stakes in first-class companies in the United States, in Europe and in Australia
- In infrastructure, a 21% interest in a leader in India's green energy sector

Globalization

Strategically investing in markets with attractive long-term opportunities

2016 ACHIEVEMENTS

- Increased global market exposure in all asset classes to 59.1% at the end of 2016
- Opened offices in New Delhi and London, to establish a presence in these strategic regions
- Developed strategic partnerships with world-class actors, notably:
  - Edelweiss, an Indian company that offers specialized financing to businesses, for a long-term partnership agreement
  - CBRE Global Investment Partners, to support the growth strategy of LOGOS, an Australian company in the Asia-Pacific region
  - KKR and Stone Point Capital, to foster the growth of Sedgwick, a U.S. leader in the administration and management of third-party claims
  - DP World, for the creation of an investment platform that focuses on ports and port terminals throughout the world

Impact in Québec

Strengthen la Caisse's impact on the economy and businesses by focusing on three main priorities

2016 ACHIEVEMENTS

Growth and globalization

- Sharing of expertise and networks to support Lasik MD, KDC and IPL in their acquisitions in the United States as well as Fix Auto in its Asia-Pacific expansion
- Investment in Groupe Marcelle for the acquisition of Lise Watier Cosmetics and in Moment Factory for the creation of a new multimedia entity

Impactful projects

- Announcement of the Réseau électrique métropolitain (REM), an integrated electric, automated public transit network for the Greater Montréal area, spanning 67 km and including 27 stations
- Partnership between Ivanhoé Cambridge and Claridge targeting real estate investments in Greater Montréal, and continuation of construction and revitalization projects throughout Québec
- Financing of the New Richmond wind farm in Gaspésie

Innovation and the next generation

- Launch of Espace CDPQ, a hub to foster the growth and globalization of Québec businesses, and creation of a $50-million fund for SMEs
- Investments in businesses in promising new economy sectors such as Triotech, Felix & Paul Studios, Stingray Digital Group and Spectra Premium
- Support for innovative businesses such as Hopper and AddÉnergie

Messages from the Chairman of the Board and the President and Chief Executive Officer

MESSAGE FROM THE CHAIRMAN OF THE BOARD

The world is changing at an accelerated pace. Yet despite an environment fluctuating from one year to the next, la Caisse continues to generate solid returns.

In 2016, la Caisse continued to execute its strategic plan, always focused on its core principles: investing for the long-term in the real economy – both in Québec and in targeted global markets – together with world-class partners in fixed income, public and private equity, infrastructure and real estate.

For la Caisse, 2016 was marked in particular by international expansion. It now has offices in London, Mexico City, New Delhi, New York, Paris, Shanghai, Singapore, Sydney and Washington.

Its infrastructure and private equity investment teams are also expanding through the recruitment of high-caliber specialists with global expertise.

This year, la Caisse once again met depositors' expectations by outperforming its benchmark portfolio by a significant margin.

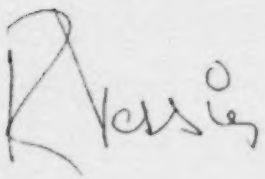
The Board is proud that the financial results achieved in 2016 went hand-in-hand with its contribution to Québec's economic development. La Caisse's role in furthering the international growth of strong Québec companies has made it an essential partner for our industry leaders.

The Board has thus renewed Michael Sabia's mandate as President and Chief Executive Officer, with the Government's approval. The Board recognizes Michael's outstanding leadership, which continues to make the difference in recruiting and motivating a high-performing team. On behalf of the Board, I want to thank Michael for his exceptional contribution.

I also want to thank our Board members for their significant contribution to la Caisse's development. Thanks to their dedication, the Board is able to carry out its mission. I also want to highlight the work of the committee chairs, who spared no effort to submit recommendations to the Board based on rigorous and thorough analyses.

Finally, I want to thank Michèle Desjardins, Rita Dionne-Marsolais and Norman Johnston for their excellent work during their terms on the Board.

Lastly, the Board wishes to thank the women and men who work at la Caisse and who give their best every day to serve our depositors and Québec as a whole.



ROBERT TESSIER
Chairman of the Board

MESSAGE FROM THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

The year 2016 was anything but boring. After years of growth fueled by low interest rates, many had feared a market correction. Instead, politics stole the show.

The election of an anti-establishment candidate to the U.S. presidency and the victory of Brexit campaigners caught pollsters and analysts by surprise. These unexpected results disrupted the established order, and the shockwaves continue to be felt around the world.

Political and economic leaders were forced to acknowledge the potential power of populist movements that oppose open markets and trade liberalization. Clearly, established elites had failed to fully appreciate the growing unease among parts of the middle class, which considers itself as the victim of globalization.

There are important lessons to be learned from these developments. On the need to build more equitable societies. On the importance of social safety nets. On the need to educate and train workers so that they can adapt to the consequences of underlying technological changes, such as robotization and artificial intelligence.

That said, changing course would be a mistake – for global economic growth and for la Caisse itself. True, the pace of trade may slow over the short term. But strong economic growth in India, China, Mexico and elsewhere is here to stay.

Being absent from high-growth countries is simply not a viable option for an investor like la Caisse. Rigorous selection of international investments is the best tool to build a diversified, resilient portfolio – an all-terrain portfolio.

During 2016, we made significant progress in implementing our globalization strategy. We strengthened our New York, London, Mexico City and Delhi teams.

We increased our presence in India – where growth has advanced between 7% and 8% since 2008 – with a number of transactions. Following financial sector reforms and changes to India's bankruptcy laws, we partnered with the Edelweiss Group to invest in troubled assets and specialized credit. We established a platform to invest in energy. We took equity positions in TVS Logistics Services and Azure Power Global, one of India's largest solar power producers.

In Asia, our Ivanhoé Cambridge subsidiary has become a leading shareholder in Logos Property Group, which develops logistics real estate projects in Australia, China and Singapore.

In the United States, we acquired a significant stake in AlixPartners, a New York-based consulting firm that has a strong presence across America and in Europe. In the Middle East, we created a $5-billion platform with DP World to invest in port infrastructure around the world. The first two terminals acquired were in Vancouver and Prince Rupert.

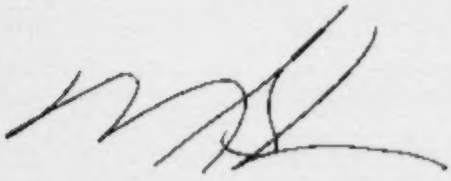
While la Caisse continues to expand globally, we remain rooted in Québec. Last year, our new investments and commitments in Québec reached $2.5 billion, bringing their total to $13.7 billion since 2012.

Our goal in Québec is to ensure that our activities and our investments have a lasting impact that goes far beyond the numbers themselves. How? By driving private investment. By investing in innovative companies such as Hopper, Moment Factory and Lightspeed. By helping our business partners expand internationally. By developing transformative infrastructure projects like the Réseau électrique métropolitain. The REM, launched in the spring of 2016, recently reached a key milestone when the Québec government committed to invest $1.3 billion in the project.

These examples illustrate our commitment to finding the best opportunities no matter where they are in Québec or elsewhere in the world. Always with a rigorous and highly selective approach. Because our investment strategy remains the same, regardless of geography.

Partner with the best. Target the highest quality assets rooted in the real economy. Remain disciplined. Do deep research. Yet innovate in how we structure transactions.

This rigorous approach is what helped us generate 10.2% annualized returns over the last five years. It guides us in a changing and unpredictable world. And it helps us build great projects and great companies.



MICHAEL SABIA
President and Chief Executive Officer

Our Clients, the Depositors

OUR CLIENTS, THE DEPOSITORS

Once again in 2016, the annual strategic planning exercise and discussions with depositors offered an opportunity for la Caisse to look back on the investment strategies and portfolios it offers, in the context of modest global growth and geopolitical uncertainty. While remaining focused on the same strategic directions of recent years, la Caisse continued to adapt its offer to help it achieve the returns its depositors require over the long term, while respecting their risk tolerance.

PRODUCTIVE COLLABORATION

La Caisse's depositors are at the core of its operations, offering them market expertise and insight to help them in their investment decisions. Its business model is based on collaboration, listening, transparency and the clear identification of each one's role and responsibilities.

CHANGES IN THE PORTFOLIO OFFERING

In 2016, la Caisse's teams and its depositors continued to hold regular discussions, notably as part of the work carried out by la Caisse to enhance its portfolio offering. It undertakes these efforts periodically to better meet the needs of its clients and to gauge the underlying trends that characterize its investment environment.

In 2016, these trends included:

- modest global growth and significant geopolitical risks;
- lower expectations of long-term returns, particularly from fixed-income securities;
- ongoing intense competition in several investment sectors, notably for less-liquid assets (real estate, infrastructure and private equity).

The main changes made to the portfolio offering in 2016 were as follows:

Equity

La Caisse continued its shift towards an absolute-return management philosophy, which emphasizes the creation of long-term value. This approach aims to build portfolios based on strong convictions rather than on the composition of benchmark indexes.

The main changes affected the public equity portfolios. Since January 1, 2016, in order to facilitate a more cross-sectoral and agile management, they have been grouped into a single specialized portfolio divided into six management mandates:

1. Global Quality;
2. Canada;
3. Growth Markets;
4. Alternative Beta, whose strategy consists of attributing a weight to each security in the portfolio based on different measures rather than on its market capitalization;
5. Relationship Investing, which targets high-potential companies in order to improve their operational efficiency and create value over the long term;
6. Strategic, which ensures a high-level management of the Public Equity portfolio, providing la Caisse with greater flexibility to adapt to market changes and allowing it to better integrate its investment convictions when selecting securities and sectors, with a constant goal of enhancing its performance.

Fixed Income

In order to continue offering its clients an attractive risk-return profile, la Caisse took steps that led to a decision to transform the Bonds and Real Estate Debt portfolios into two new specialized portfolios, effective January 1, 2017:

- the Rates portfolio, which includes more traditional provincial and federal bonds and constitutes a source of liquidity;
- the Credit portfolio, which includes corporate debt, real estate debt, sovereign credit, sovereign debt of growth markets, and specialty finance. Its goal is to generate returns while diversifying sources of value.

Real Assets

The Real Estate and Infrastructure portfolios were repositioned in a new asset class called Real Assets, which better reflects la Caisse's strategy of increasingly focusing on quality assets rooted in the real economy.

While this asset class continues to draw considerable interest from institutional investors, la Caisse strengthened its expertise in Québec and internationally, while bolstering its investment capability for these portfolios.

DEPOSITORS' INDIVIDUAL RETURNS

The decisions made with respect to the allocation of assets among the three major asset classes in the overall portfolio – Equity, Fixed Income and Real Assets – have a significant bearing on the returns for each depositor. The depositors make these decisions based, most notably, on their target returns, risk tolerance and investment horizon. Over five years, the annualized returns of the eight principal depositors' funds ranged from 8.7% to 11.4%.

For 2016, depositors' returns varied between 6.3% and 8.2%.

FIGURE 1

RETURNS ON THE EIGHT PRINCIPAL DEPOSITORS' FUNDS

OUR CLIENTS, THE DEPOSITORS

Currencies

In 2016, la Caisse held discussions with depositors in order to increase exposure to foreign currencies. These discussions led to the implementation, on January 1, 2017, of a new currency management approach that includes, among other things, the gradual de-hedging of the Real Estate, Infrastructure and Private Equity portfolios and the establishment of a dynamic framework to manage exposure to currencies in the overall portfolio.

PORTFOLIOS OFFERED TO DEPOSITORS

La Caisse enables its depositors to allocate their funds to specialized portfolios that hold securities from the same asset class (see Table 2). Most of these portfolios are managed actively. Each one is managed based on rules set out in an investment policy that specifies:

- the management approach;
- the investment universe and benchmark index;
- the target returns;
- the risk oversight.

In addition to its specialized portfolios, la Caisse provides overlay options to enable each depositor to customize its exposure to interest rates.

CUSTOMIZED ADVISORY SERVICES

La Caisse provides advisory services to its depositors to guide them in their investment decisions. These services include:

- financial market analysis and economic outlooks;
- risk and return assumptions for the principal asset classes and specialized portfolios offered;
- simulated allocation of depositors' assets in various specialized portfolios to help them determine the optimal composition of their benchmark portfolios, based on their needs and risk tolerance.

In recent years, la Caisse has improved the advisory services it offers by enhancing its ability to analyze its clients' long-term financial commitments. In 2016, several projects to analyze assets and liabilities were carried out in collaboration with certain depositors. These analyses ascertain the relevance of existing and proposed asset allocations in terms of potential impacts on the level of capitalization or the contributions required over the long term for the plan in question.

TABLE 2

SPECIALIZED PORTFOLIO OFFERING
(as at December 31, 2016)

	ACTIVELY MANAGED	INDEXED	OBJECTIVES
FIXED INCOME	Bonds Real Estate Debt	Short Term Investments Long Term Bonds Real Return Bonds	Reduce the portfolio's overall risk level Match depositors' assets and liabilities
REAL ASSETS	Real Estate Infrastructure		Have exposure to markets for which investment income is indexed to inflation Partially hedge the inflation risk associated with the liabilities of several depositors
EQUITY	Public Equity Private Equity		Increase depositors' long-term target returns
OTHER INVESTMENTS	Active Overlay Strategies Asset Allocation		Achieve diversification and complementarity of la Caisse's overall portfolio

THE EIGHT PRINCIPAL DEPOSITORS' FUNDS

REPRESENTED 96.3% OF NET ASSETS as at December 31, 2016

1 RETIREMENT PLANS SINKING FUND

$65.4 B
NET ASSETS

> Fund used by the Government of Québec to capitalize the employer's portion of retirement benefits of employees in the public and parapublic sectors

2 GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN

$63.6 B
NET ASSETS

> 546,000 contributors
> 246,000 retirees and 17,000 surviving spouses and orphans
> $5.1 billion in benefits paid annually

3 RETRAITE QUÉBEC

$62.2 B
NET ASSETS

> 4.1 million contributors
> 1.9 million beneficiaries
> $13 billion in benefits paid annually

4 SUPPLEMENTAL PENSION PLAN FOR EMPLOYEES OF THE QUÉBEC CONSTRUCTION INDUSTRY

$20.7 B
NET ASSETS

> 158,000 contributors
> 89,000 retirees or surviving spouses
> $787 million in benefits paid annually

5 COMMISSION DES NORMES, DE L'ÉQUITÉ, DE LA SANTÉ ET DE LA SÉCURITÉ DU TRAVAIL

$15.4 B
NET ASSETS

> 225,000 contributing employers
> 3.8 million workers covered
> $1.9 billion in benefits paid annually

6 SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC

$11.3 B
NET ASSETS

> 5.3 million driver's licence holders
> 6.3 million registered vehicles
> $1 billion paid in compensation annually

7 GENERATIONS FUND

$11.2 B
NET ASSETS

> Fund used to repay Québec's debt

8 PENSION PLAN OF MANAGEMENT PERSONNEL

$11.0 B
NET ASSETS

> 27,700 contributors
> 28,000 retirees and 2,300 surviving spouses and orphans
> $1.2 billion in benefits paid annually

TABLE 3

LA CAISSE'S 41 DEPOSITORS – Comparison of net assets as at December 31, 2015, and as at December 31, 2016

(fair value as at December 31 – in millions of dollars)

	First deposit	Depositors' net assets 2016 $	2016 %	2015 $	2015 %
PENSION PLANS					
Retraite Québec	1966	62,243	23.0	57,077	23.0
Supplemental Pension Plan for Employees of the Québec Construction Industry	1970	20,694	7.6	19,467	7.9
Government and Public Employees Retirement Plan	1973	63,604	23.4	59,878	24.2
Pension Plan of Management Personnel	1973	11,012	4.1	10,427	4.2
Special Plans	1977	250	0.1	241	0.1
Pension Plan of Elected Municipal Officers	1989	245	0.1	229	0.1
Retirement Plan for the Mayors and Councillors of Municipalities	2015	1	–	2	–
Régime complémentaire de rentes des techniciens ambulanciers/paramédics et des services préhospitaliers d'urgence	1990	539	0.2	500	0.2
Ministère des Finances, Government of Québec[1]					
Retirement Plans Sinking Fund	1994	65,422	24.2	59,307	23.9
Superannuation Plan for the Members of the Sûreté du Québec – employers' fund	2009	613	0.2	578	0.3
Régime de retraite de l'Université du Québec	2004	431	0.2	381	0.2
Régime de retraite du personnel des CPE et des garderies privées conventionnées du Québec	2005	316	0.1	272	0.1
Régime de retraite pour certains employés de la Commission scolaire de la Capitale	2006	34	–	35	–
Pension Plan of the Non-Teaching Staff of the Commission des écoles catholiques de Montréal	2007	202	0.1	208	0.1
Superannuation Plan for the Members of the Sûreté du Québec – participants' fund	2007	404	0.2	345	0.1
Régime de retraite des employés de la Ville de Laval	2007	338	0.1	286	0.1
Retirement Plan for Active Members of the Centre hospitalier Côte-des-Neiges	2010	84	–	82	–
Fonds commun de placement des régimes de retraite de l'Université Laval	2012	247	0.1	205	0.1
Fiducie globale Ville de Magog	2012	64	–	59	–
Régime de retraite des employées et employés de la Ville de Sherbrooke	2012	38	–	35	–
Régime de retraite des agents de la paix en services correctionnels	2013	603	0.2	456	0.2
Régime complémentaire de retraite des employés réguliers de la Société de transport de Sherbrooke	2013	75	–	70	–
Régime de retraite de la Corporation de l'École Polytechnique	2014	53	–	37	–
Régime de retraite de la Ville de Terrebonne	2015	59	–	50	–
Régime de retraite des cadres de la Ville de Québec[2]	2016	244	0.1	–	–
Régime de retraite des employés manuels de la Ville de Québec[2]	2016	296	0.1	–	–
Régime de retraite des fonctionnaires de la Ville de Québec[2]	2016	518	0.2	–	–
Régime de retraite du personnel professionnel de la Ville de Québec[2]	2016	191	0.1	–	–
Régime de retraite des policiers et policières de la Ville de Québec[2]	2016	419	0.2	–	–
Régime de retraite des pompiers de la Ville de Québec[2]	2016	150	0.1	–	–
Régime de retraite des employés du Réseau de transport de la Capitale[2]	2016	63	–	–	–
INSURANCE PLANS					
Régie des marchés agricoles et alimentaires du Québec	1967	10	–	10	–
La Financière agricole du Québec	1968	700	0.3	586	0.3
Autorité des marchés financiers	1969	791	0.3	748	0.3
Commission des normes, de l'équité, de la santé et de la sécurité du travail	1973	15,367	5.7	14,688	5.9
Société de l'assurance automobile du Québec	1978	11,306	4.2	10,944	4.4
Les Producteurs de bovins du Québec	1989	6	–	6	–
Survivor's Pension Plan	1997	432	0.2	425	0.2
Conseil de gestion de l'assurance parentale	2005	1	–	1	–
OTHER DEPOSITORS					
Office de la protection du consommateur	1992	141	0.1	129	–
Société des alcools du Québec	1994	–	–	–	–
Ministère des Finances, Government of Québec[1]					
Generations Fund	2007	11,211	4.1	9,036	3.7
Accumulated Sick Leave Fund	2008	1,095	0.4	1,018	0.4
Territorial Information Fund	2011	114	–	96	–
Agence du revenu du Québec	2012	120	–	111	–
TOTAL		**270,746**	**100.0**	248,025	100.0

1. The Ministère des Finances entrusts la Caisse with a total of five funds.

2. New depositor in 2016.

Management Report

GLOBAL MACROECONOMIC ENVIRONMENT

MODEST GLOBAL GROWTH

The global economy grew at a modest pace over the past five years. In developed countries, extremely accommodative monetary policies lifted stock markets and sent interest rates on government bonds down to extremely low levels, but this was not enough to forcefully stimulate economic activity. As well, growth markets had to deal with weak demand in developed countries and slower growth in China. This environment ultimately resulted in decreased economic growth and slower improvement in their financial markets, in addition to putting pressure on their exchange rates.

GEOPOLITICAL RISKS WEIGH ON ECONOMIC GROWTH

Geopolitical risks have been on the rise, particularly over the past two years. Populist and Nationalist movements have gained momentum, mainly in Europe and the U.S. In Europe, against the backdrop of a migrant crisis, terrorism and a morose economy in the euro zone, this movement ultimately led UK electors to vote to leave the European Union (Brexit) and renewed interest in nationalist political parties in some countries (see Figure 4). In the U.S., the protectionist agenda of the new administration is creating uncertainty. This could further slow growth in business investment and productivity, which have been weak for several years. In a context where the working population will shrink in the medium term, growth can be expected to remain weak in developed countries (see Figure 5, p. 29).

THE UNITED STATES: THE MOST DYNAMIC ECONOMY IN THE DEVELOPED WORLD

Over the past five years, the U.S. economy had the strongest performance among developed countries. A return to full employment has allowed the U.S. Federal Reserve (the Fed) to begin to tighten monetary policy. The Fed is proceeding very slowly in order to limit upward pressure on the dollar, since monetary policy continues to be highly accommodative elsewhere in the world, particularly in Japan and the euro zone. These regions recorded slow growth along with inflation rates that fell far short of their central banks' targets, despite the monetary stimulus. The divergence between the U.S. and these economies, both in terms of economic performance and monetary policy, resulted in a strong appreciation of the U.S. dollar against the euro, the yen and the currencies of other trading partners. In the euro zone, economic growth outpaced the economy's potential over the past two years. This was due in part to the European Central Bank's implementation of a massive asset purchase program in March 2015. From the start of 2015 to the end of 2016, this growth trimmed close to two percentage points from the unemployment rate. However, with the rate still above 9.5% at the end of 2016, the euro zone economy still suffers from overcapacity.

FIGURE 4

RISE OF POPULISM AND GEOPOLITICAL RISKS IN 2016

Source: CDPQ

CANADA AND QUÉBEC DOING WELL, BUT FACE MAJOR CHALLENGES

The Canadian and Québec economies grew at rates close to their potential over the past five years. On the other hand, the collapse of oil prices caused a sharp drop in business investment in 2015 and 2016, particularly in the energy sector, which acted to slow the growth of the Canadian economy below its potential. In Québec, economic activity accelerated in 2016 due to household spending and a favourable labour market. However, Canada still faces several challenges, including a lack of business competitiveness and the world's abundant supply of oil. A record household debt level is also a concern, since it makes the Canadian economy vulnerable to macroeconomic shocks that could undermine employment or provoke a sharp rise in interest rates.

GROWTH MARKETS BUFFETED BY EXTERNAL AND DOMESTIC FACTORS

In growth markets, the slowdown of activity in China and lackluster demand in advanced economies contributed to a sharp decline in commodity prices (see Figure 6), weakening the terms-of-trade and external balances of commodity exporters. Moreover, the Fed's May 2013 announcement of a possible tapering of its quantitative easing program triggered large capital outflows and sharp depreciations in currencies across growth markets, forcing tighter policies. In addition to falling commodity prices and the slowdown in China, growth markets have had to deal with devaluation of the renminbi, financial market turbulence, Brazil's political turmoil and the start of Fed policy tightening. These destabilizing events contributed to the drying up of net capital flows, which even turned negative in 2015 for the first time in recent history.

GROWTH MARKETS ON A PATH TO STABILITY?

Growth in China now appears to have stabilized and in the short term, a growth rate of approximately 6.5% is likely. This will depend, however, on the speed of the reform process and the extent to which issues related to corporate indebtedness and excess capacity are dealt with. In India, the country's increased economic openness led to robust growth. Poorly managed demonetization had a sharp short-term impact on activity, but a rebound is underway and medium-term growth of around 7.5% is likely. Brazil is beginning to gradually emerge from a deep recession, and the reforms being adopted will help put the public sector on a sustainable footing. In the case of Mexico, to counter the effects on the budget of the oil price collapse, and in response to pressures on the peso, tight monetary and fiscal policies were adopted, which led to a slowdown in activity. Reforms are ongoing but uncertainties relating to the policies of the new U.S. administration are likely to continue to weigh on activity in the short term.

FIGURE 5

DOWNWARD TREND IN THE POTENTIAL GROWTH OF SEVERAL DEVELOPED COUNTRIES
(as a percentage)

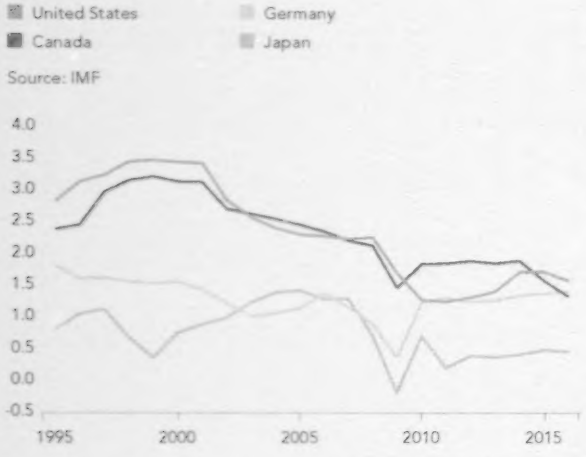


FIGURE 6

SHARP DROP IN COMMODITY PRICES
(Index: 2006 = 100)

ANALYSIS OF OVERALL PERFORMANCE

Over the past five years, la Caisse has generated returns for depositors that exceeded their long-term needs, despite market conditions that varied widely from one year to the next. It benefited from its diversified portfolio that generates value beyond market returns and provides long-term stability.

La Caisse also benefited from its strategy based on an absolute-return approach, high-quality asset selection, increased global exposure, and an active presence in Québec.

FIVE-YEAR RETURN

La Caisse's overall portfolio had a 10.2% annualized weighted average return on depositors' funds for the five-year period ended December 31, 2016 (see Table 8, p. 31). This return exceeded by 1.1% the return on its benchmark portfolio, which was 9.1% (see Table 7). This difference represents $12.3 billion of value-added over five years, of which $4.4 billion was generated in 2016. In each asset class, all the portfolios delivered positive returns.

Over the past few years, the lower interest rate environment has benefited portfolios in the Fixed Income asset class which, taken together, generated $13.7 billion of net investment results over five years. Their 3.7% average annualized return compares favourably with their benchmark, which returned 3.1%. Three of the five portfolios in this asset class delivered value-added in relation to their benchmarks, particularly in the two actively managed portfolios, Bonds and Real Estate Debt.

Since 2012, these two portfolios together have created $2.3 billion of value-added on $12.9 billion of net investment results.

Over the same period, Real Assets recorded an average annual return of 11.5% and $17.4 billion of net investment results. Its two portfolios, Real Estate and Infrastructure, generated returns of 12.1% and 10.0%, respectively. The attractiveness of this asset class to investors has not diminished over the past few years due to its more stable and predictable long-term returns.

With net investment results of $63.7 billion over five years, it is the Equity asset class that has contributed the most to la Caisse's overall performance. Its annualized return reached 14.0%, which was 1.7% above its benchmark. Public equity portfolios generated $50.3 billion on the strength of an average annual return of 14.1%. In addition to strong performance by equity markets over the period, the portfolios outperformed their benchmarks due to strategic diversification, an emphasis on high-quality securities and rigorous selection of partners in growth markets. The Private Equity portfolio also delivered a solid return of 13.5% over five years, for net investment results of $13.4 billion.

TABLE 7

NET ASSETS AND RETURNS IN RELATION TO BENCHMARK INDEXES

(for periods ended December 31, 2016)

		5 years			1 year		
Asset class	Net assets $B	Net investment results $M	Return %	Index %	Net investment results $M	Return %	Index %
Fixed Income	89.5	13,731	3.7	3.1	2,287	2.9	1.8
Real Assets	46.4	17,421	11.5	12.3	4,384	10.6	8.6
Equity	131.7	63,667	14.0	12.3	12,275	10.4	7.9
Active Overlay Strategies	0.6	300	N/A	N/A	28	N/A	N/A
Asset Allocation	1.5	1,190	N/A	N/A	(135)	N/A	N/A
ABTN	0.2	2,763	N/A	N/A	140	N/A	N/A
Total[1,2]	270.7	100,006	10.2	9.1	18,417	7.6	5.8

1. The total includes customized overlay operations, cash activities and completed activities.
2. See General Notes 3 and 6 of the Annual Report, on page 181.

Over the past five years, la Caisse has significantly increased the weight of less-liquid asset portfolios – Real Estate, Infrastructure and Private Equity – in its overall portfolio. Their weight has grown from 25% as at December 31, 2011 to 28.5% as at December 31, 2016. This strategy has proven advantageous, since these portfolios have posted an average annualized return of 12.3% over five years, evidence of their strength and stability over time. These assets have also played a key role in la Caisse's globalization strategy, such that as at December 31, 2016, their exposure outside Canada had reached 70%.

2016 RETURN

Over one year, the weighted average return on depositors' funds was 7.6%, which is 1.8% higher than the 5.8% return on the benchmark portfolio (see Table 7, p. 30). These results were achieved in a complex market environment characterized by modest global growth, dampened by weak levels of business investment, geopolitical uncertainties and a relative complacency in the markets.

La Caisse's investment teams nevertheless continued to deliver solid returns, with net investment results of $18.4 billion in 2016. The three principal asset classes – Fixed Income, Real Assets and Equity – all posted positive returns.

Despite slightly increasing interest rates in Canada and the U.S. in 2016, the portfolios in the Fixed Income asset class posted a combined return of 2.9%. The Real Assets asset class achieved the strongest performance – 10.6% – closely followed by the Equity asset class, at 10.4%. The Equity asset class generated two thirds of la Caisse's net investment results in 2016, contributing a total of $12.3 billion. The Private Equity portfolio and the Canada mandate of the Public Equity portfolio performed particularly well, with returns of 14.0% and 22.7%, respectively. The Canada mandate benefited from strong growth in the Canadian equity market, driven by rising oil and commodity prices and favourable performance in the financial sector, particularly in the second half of the year.

GEOGRAPHIC DIVERSIFICATION

To ensure that the overall portfolio is well-diversified and to seize opportunities wherever they may be, la Caisse invests in various asset classes all over the world. In addition to investing in Québec and Canada, it is active in most developed countries and in certain growth markets. Over the past five years, la Caisse has expanded its international presence by over 18%. As at December 31, 2016, 59.1% of its exposure was outside Canada (see Table 9).

The greatest increase in la Caisse's exposure was that of the U.S., up from 17.2% as at December 31, 2011 to 31.2% as at December 31, 2016.

TABLE 8

CAISSE RETURNS
(for periods ended December 31 – as a percentage)

	Caisse overall return[1]
5 years (2012-2016)	**10.2**
2016	7.6
2015	9.1
2014	12.0
2013	13.1
2012	9.6

1. Weighted average return on depositors' funds

TABLE 9

GEOGRAPHIC EXPOSURE OF THE OVERALL PORTFOLIO
(as at December 31 – as a percentage)

	2016	2015
Canada	**40.9**	46.0
United States	**31.2**	26.5
Europe	**12.7**	13.8
Growth markets	**9.5**	7.7
Other regions	**5.7**	6.0
Total	**100.0**	100.0

ANALYSIS OF OVERALL PERFORMANCE

La Caisse has also continued to deploy capital in targeted growth markets. At the end of 2016, its growth market exposure was 9.5%. During the year, $2.4 billion was invested in these markets in real estate, infrastructure and private equity, of which $1.3 billion was invested in India, which has favourable growth prospects and whose structural reforms are well underway. La Caisse opened an office in New Delhi in 2016 to be better positioned to seize investment opportunities as they arise in various sectors.

Other priority markets for la Caisse are China, Mexico and Brazil. To invest in these countries, la Caisse's strategy involves partnering with investors and operators whose extensive knowledge of these markets complements its own.

TABLE 10

COMPOSITION OF THE BENCHMARK PORTFOLIO AND CHANGES IN THE OVERALL PORTFOLIO

(percentage of depositors' net assets)

	Benchmark portfolio					
	as at December 31, 2016[1]			as at December 31, 2015[1]	Overall portfolio	
	Lower limit %	Benchmark portfolio %	Upper limit %	Benchmark portfolio %	as at December 31, 2016 %	as at December 31, 2015 %
Fixed Income						
Bonds	20.5	25.7	32.4	26.7	25.2	27.4
Real Estate Debt	1.4	4.3	7.0	5.4	4.3	4.6
Short Term Investments	0.2	1.1	9.0	1.1	2.3	2.0
Long Term Bonds	0.7	1.0	3.0	1.0	1.0	1.0
Real Return Bonds	0.0	0.4	2.1	0.4	0.4	0.5
Total		32.5		34.6	33.2	35.5
Real Assets						
Real Estate	8.3	12.0	15.2	11.7	11.8	10.9
Infrastructure	3.3	6.3	9.6	5.4	5.4	5.2
Total		18.3		17.1	17.2	16.1
Equity						
Public Equity[2]	25.8	37.3	45.2	–	37.5	–
Global Quality Equity[2]	–	–	–	10.3	–	13.7
Canadian Equity[2]	–	–	–	10.7	–	9.0
Emerging Markets Equity[2]	–	–	–	5.4	–	5.5
U.S. Equity[2]	–	–	–	5.4	–	4.3
EAFE Equity[2]	–	–	–	5.1	–	4.4
Private Equity	8.5	11.9	15.4	11.4	11.3	10.6
Total		49.2		48.3	48.8	47.5
Other Investments						
Active Overlay Strategies	0.0	0.0	0.5	0.0	0.2	0.2
Asset Allocation	0.0	0.0	1.0	0.0	0.6	0.7
ABTN	N/A	N/A	N/A	N/A	0.0	0.0
Total		100.0		100.0	100.0	100.0

1. The benchmark portfolio and its upper and lower limits are the result of the weighted average of the depositors' respective benchmark portfolios.
2. On January 1, 2016, the public equity specialized portfolios were grouped together in the new Public Equity specialized portfolio.

CURRENCY EXPOSURE AND FOREIGN EXCHANGE HEDGING

Most of the foreign investments in the less-liquid portfolios are hedged against currency fluctuations. However, with the exception of certain fixed income securities, all of the liquid portfolios have foreign exchange exposure.

As at December 31, 2016 the net exposure to foreign currencies amounted to 37% of la Caisse's total net assets, a proportion that has been increasing since 2012. This exposure had a positive impact on the overall return during the five-year period, mainly due to the U.S. dollar's appreciation against the Canadian dollar.

BENCHMARK PORTFOLIO

La Caisse's benchmark portfolio corresponds to the weighted average of the asset allocation decisions made by each of the depositors when their investment policies are established.

In 2016, in line with la Caisse's strategic orientations, the depositors reviewed the compositions of their respective benchmark portfolios, and this had an impact on la Caisse's benchmark portfolio. As at December 31, 2016, the benchmark portfolio had higher weights in the Real Assets and Equity asset classes, as well as a decreased weighting in Fixed Income compared to the previous year (see Table 10, p. 32). These changes reflect la Caisse's prioritization of a greater focus on less liquid assets (real estate, infrastructure and private equity) while further developing its fixed income strategy. Among the specialized portfolios, it was the Infrastructure portfolio that experienced the most growth, reflecting depositors' growing interest in this type of asset.

OVERALL PORTFOLIO

The composition of la Caisse's overall portfolio reflects decisions made by the depositors about their benchmark portfolios and by la Caisse in relation to the upper and lower limits set for each specialized portfolio. Table 10 on page 32 presents changes in the composition of the overall portfolio as at December 31, 2016.

ANALYSIS OF PERFORMANCE BY ASSET CLASS

For the five-year period, all of the portfolios comprising la Caisse's overall portfolio generated positive returns. In 2016, the three main asset classes – Fixed Income, Real Assets and Equity – contributed significantly to the overall return.

Fixed income

5 PORTFOLIOS
Bonds
Real Estate Debt
Short Term Investments
Long Term Bonds
Real Return Bonds

$89.5 B
NET ASSETS

33.2%
OF LA CAISSE'S OVERALL PORTFOLIO

3.7%
FIVE-YEAR ANNUALIZED RETURN

All the figures in this section are detailed in Table 18 (p. 45).

BONDS

Five-year return

For the five-year period ended December 31, 2016, this actively managed portfolio generated net investment results of $10.7 billion. Its five-year annualized return was 3.9%, compared to 3.3% for its benchmark index, for a total of $1.6 billion of value-added. This performance was attributable to private debt operations and investments in provincial securities and growth market securities.

2016 return

Despite a higher interest rate environment in the second half of 2016, the Bonds portfolio posted a 3.1% return. The portfolio benefited from la Caisse's deployment of investments in growth market debt and an overweight position in corporate securities. These bonds provided a good return in 2016, particularly in the Industrials sector.

Table 11 presents FTSE TMX Canada Bond Index returns by issuer category. For 2016, the return on the FTSE TMX Canada Universe Bond Index was 1.7%, down from the previous two years. This was due to rising interest rates at the end of the year.

Over the last few years, provincial bonds have provided higher yields due to their longer maturities, but in 2016, corporate bonds outperformed. This was the result of sustained demand for credit instruments, which led to a generalized narrowing of spreads.

TABLE 11

FTSE TMX CANADA BOND INDEX RETURNS
(as a percentage)

	2016				2015				5 years			
FTSE TMX Canada bond indexes	Short-term	Medium-term	Long-term	Total	Short-term	Medium-term	Long-term	Total	Short-term	Medium-term	Long-term	Total
Federal	0.1	(0.1)	(0.8)	0.0	2.4	5.1	5.4	3.7	1.5	2.8	3.2	2.2
Provincial	0.9	1.5	2.3	1.8	2.9	5.1	4.2	4.1	2.1	3.9	4.1	3.6
Québec	1.1	1.6	2.6	2.0	3.0	5.3	5.1	4.7	2.2	4.0	4.5	3.9
Corporate	2.3	4.3	6.4	3.7	2.7	4.1	1.5	2.7	3.0	5.3	5.9	4.2
Universe	1.0	1.6	2.5	1.7	2.6	4.9	3.8	3.5	2.1	3.9	4.3	3.2

REAL ESTATE DEBT

Five-year return

Net investment results from real estate debt activities totalled $2.2 billion over five years. The portfolio generated an annualized return of 4.9%, exceeding its benchmark index by 1.7% and providing $759 million of value-added. The performance was mainly due to the higher current yield on portfolio assets compared to the benchmark index.

2016 return

In 2016 the portfolio posted a return of 2.6%, mainly due to the current return on portfolio assets, net of the impact of rising interest rates.

Transaction volume was on target and the credit quality of the underwritten assets was maintained, in accordance with a long-term capital protection strategy. Credit performance remained excellent, with none of the portfolio's loans in default on interest payments.

SHORT TERM INVESTMENTS

This indexed portfolio delivered results representative of the low interest rate environment of the last five years. Since 2012, the portfolio's average annual return has been 0.9%, adding $288 million to net investment results. In 2016, the portfolio returned 0.5%.

LONG TERM BONDS

This indexed portfolio provided an annualized return of 4.1% over five years, generating $449 million of net investment results. In 2016, the portfolio posted a 2.1% return, reflecting the more conservative nature of this type of portfolio and the targeted return, given the low rates on provincial bonds.

REAL RETURN BONDS

This indexed portfolio had a 1.3% annualized return over five years and a 2.8% return in 2016.

BONDS PORTFOLIO

COMPOSITION

- Bonds:
  - Government of Canada and governments of other countries
  - Governments of Canadian provinces
  - Public and private companies

ADVANTAGES

- Source of current yield and liquidity
- Low risk level
- Protection of the overall portfolio
- Diversification
- Matching of depositors' assets with their long-term financial commitments

REAL ESTATE DEBT PORTFOLIO

COMPOSITION

- Canadian commercial mortgage loans, primarily senior, on office buildings, shopping centres, industrial and residential buildings

ADVANTAGES

- Returns exceeding that of bonds
- High and relatively stable current yield
- Low credit risk as a result of prudent underwriting and high asset quality
- Matching of depositors' assets with their long-term financial commitments

ANALYSIS OF PERFORMANCE BY ASSET CLASS

Real Assets

2 PORTFOLIOS
Real Estate
Infrastructure

$46.4 B
NET ASSETS

17.2%
OF LA CAISSE'S OVERALL PORTFOLIO

11.5%
FIVE-YEAR ANNUALIZED RETURN

All the figures in this section are detailed in Table 18 (p. 45).

REAL ESTATE

Five-year return

For the five-year period ended December 31, 2016, the portfolio had a 12.1% annualized return and generated net investment results of $13.0 billion. It profited from a sharp appreciation in the value of assets such as shopping centres and office and residential buildings, primarily in North America.

Over the last few years, la Caisse's real estate subsidiary, Ivanhoé Cambridge, has undertaken a major initiative to reposition the real estate portfolio, a strategy that proved beneficial. The managers focused on quality assets and made many acquisitions abroad in the cities they had targeted.

Figures 12 and 13, on page 37, describe the geographic and sectoral changes made in the Real Estate portfolio over the last five years. One can see that there has been significant growth in the portfolio's exposure to the U.S. and in the residential segment.

2016 return

In 2016 the portfolio had a 10.4% return and generated net investment results of $3.0 billion. This performance stems from Ivanhoé Cambridge's diversification strategy, which has led to higher asset values, particularly in the residential segment in the U.S., and from solid current yields in the office building and shopping centre segments, particularly in North America.

REAL ESTATE PORTFOLIO

COMPOSITION

- Quality buildings located mainly in key cities around the world
- Investments in equities and debt, primarily in shopping centres, office, residential and logistics buildings

ADVANTAGES

- Higher current yield than that of fixed income securities
- Attractive risk-return profile and essential cash flows
- Diversification of the risk in la Caisse's overall portfolio due to a lower correlation between the assets held and global markets
- Protection against inflation over the long term as a result of indexed leases

During the year, managers at Ivanhoé Cambridge completed transactions worth $11.6 billion, including $5.8 billion in investments. Major acquisitions included:

- 330 Hudson Street and 1211 Avenue of the Americas: acquisition of the remaining interests in these two landmark office buildings in New York, in partnership with Callahan Capital Properties;
- 180 North Lasalle: acquisition of this Chicago office building;
- LOGOS: an interest in this Australian real estate company, active in China, which owns and develops logistics properties in Shanghai and cities in Asia-Pacific;
- New acquisitions in San Francisco and London, bringing the total number of residential units owned around the world by Ivanhoé Cambridge to close to 26,000;
- Tsawwassen Mills: inauguration, in Vancouver, of the largest shopping mall built in Canada since 2009;
- River Point: completion of the construction of this emblematic Chicago building, a project valued at over $600 million.

Other major transactions completed in 2016 included the sale, in partnership with TPG, of P3 Logistic Parks, an investor, developer and manager of logistics parks in Europe. This was one of the largest real estate transactions in Europe in 2016.

In Québec, Ivanhoé Cambridge engaged in investments worth over $450 million in 2016, including various construction and revitalization projects in Montréal, Québec City and Sherbrooke (for more information, see the section La Caisse's Achievements in Québec on page 64).

FIGURE 12

GEOGRAPHIC EXPOSURE – REAL ESTATE
(as a percentage)

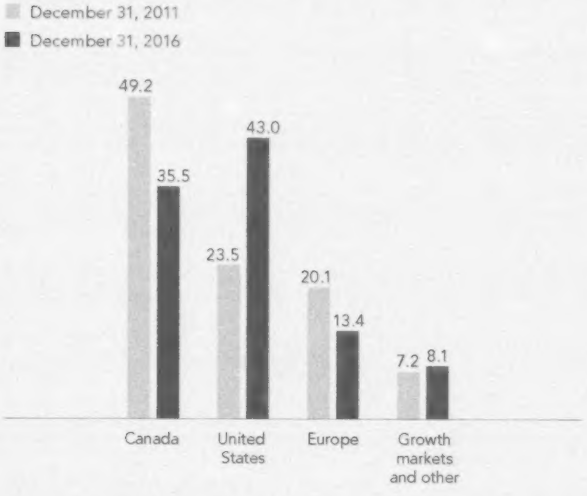
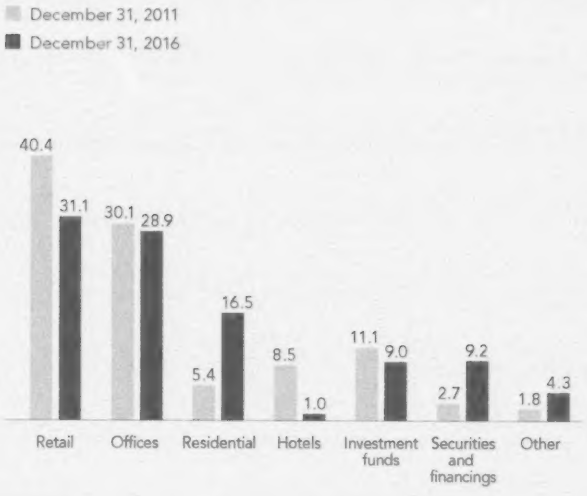


FIGURE 13

SECTORAL EXPOSURE – REAL ESTATE
(as a percentage)



ANALYSIS OF PERFORMANCE BY ASSET CLASS

INFRASTRUCTURE

Five-year return

For the five-year period ended December 31, 2016, the portfolio generated net investment results of $4.4 billion and an annualized return of 10.0%.

This five-year return was largely due to current yield on the investments, supported by the strong results posted by operators in the portfolio. The rest of this performance was due to the increased value of the assets held. The difference in relation to the benchmark index was attributable to the public nature of this index – composed of publicly-listed stocks – which pushed the index higher due to the market exuberance of recent years.

With $8.0 billion of infrastructure investments made over five years, the size of the portfolio has more than doubled, from $5.8 billion in net assets at the end of 2011 to $14.6 billion at the end of 2016. This growth resulted in greater asset diversification, both geographically and by sector (see Figures 14 and 15, p. 39). The portfolio experienced increasing exposure to Australia, the United States and, to a lesser extent, growth markets. In terms of sectors, the share of the infrastructure portfolio related to community services more than tripled.

2016 return

Asset appreciation accounted for a large share of the portfolio's return in 2016. The return was 11.1%, for net investment results of $1.4 billion. The main investments and commitments in 2016 included:

- Plenary Group Holdings: acquisition of 20% of this Australian company, alongside which la Caisse has invested in seven social infrastructure projects;
- DP World: alongside one of the world's largest port operators, creation of a $5.0 billion investment platform for ports and port terminals around the world (la Caisse's interest: 45%);
- Azure Power Global: a 21% interest in this Indian company, one of the largest solar power producers in the country.

INFRASTRUCTURE PORTFOLIO

COMPOSITION

- Interests in companies that operate various infrastructure projects (ports, airports, highways, wind farms, oil, gas and electricity transmission and distribution networks, water distribution networks, and passenger transportation systems)
- Quality companies with low risk profiles that are less sensitive to changing economic conditions

ADVANTAGES

- Stable and predictable revenues over the long term
- Steady cash flows and a better risk-return profile than other asset classes due to the regulatory frameworks governing many sectors
- Protection against inflation over the long term

In addition, CDPQ Infra, la Caisse's infrastructure subsidiary, unveiled in 2016 the Réseau électrique métropolitain (REM), an impactful public transit project for the Greater Montréal area valued at $6.04 billion. The new integrated network is intended to link downtown Montréal, the South Shore, the West Island, the North Shore and the international airport. The first trains in this entirely automated and electric system are expected to be in operation at the end of 2020.

FIGURE 14

GEOGRAPHIC EXPOSURE – INFRASTRUCTURE
(as a percentage)

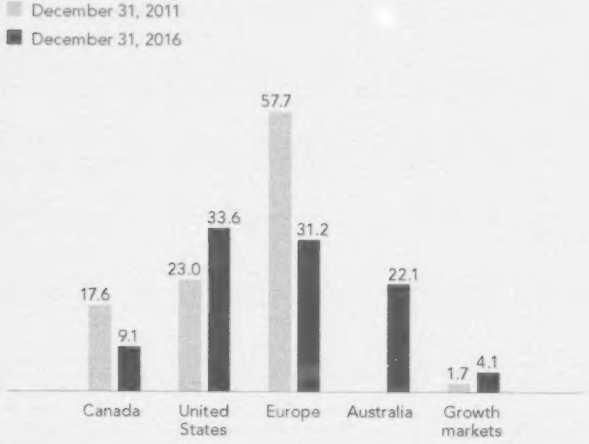
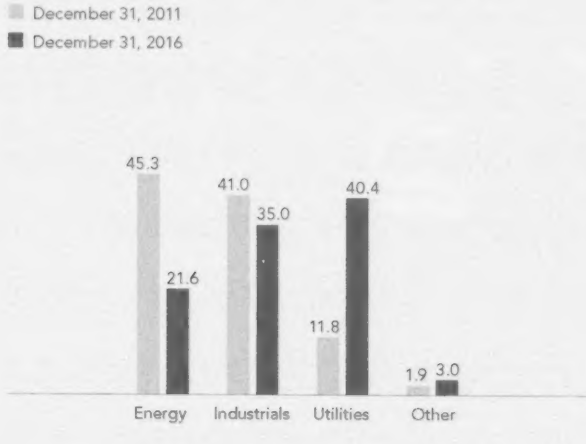


FIGURE 15

SECTORAL EXPOSURE – INFRASTRUCTURE
(as a percentage)



ANALYSIS OF PERFORMANCE BY ASSET CLASS

Equity

2 PORTFOLIOS
Public Equity
- Global Quality
- Canada
- Growth Markets
- Alternative Beta

Private Equity

$131.7 B
NET ASSETS

48.8%
OF LA CAISSE'S OVERALL PORTFOLIO

14.0%
FIVE-YEAR ANNUALIZED RETURN

All the figures in this section are detailed in Table 18 (p. 45).

PUBLIC EQUITY

Five-year return

With an annualized return of 14.1%, the Public Equity portfolios delivered $50.3 billion of net investment results over five years. This return contributed significantly to the growth of net assets, which more than doubled to $101.3 billion as at December 31, 2016.

These results were generated in a generally favourable market environment. Despite disappointing global growth over the last five years, the benchmark indexes benefited from central banks' extremely accommodative monetary policies. They posted positive returns throughout the period, despite differences in performance among the indexes from one year to the next due to changing market conditions (see Figure 16).

For la Caisse, the adoption of an absolute return approach proved beneficial, since, over five years, the Public Equity portfolios created $7.1 billion of value-added over the benchmark index.

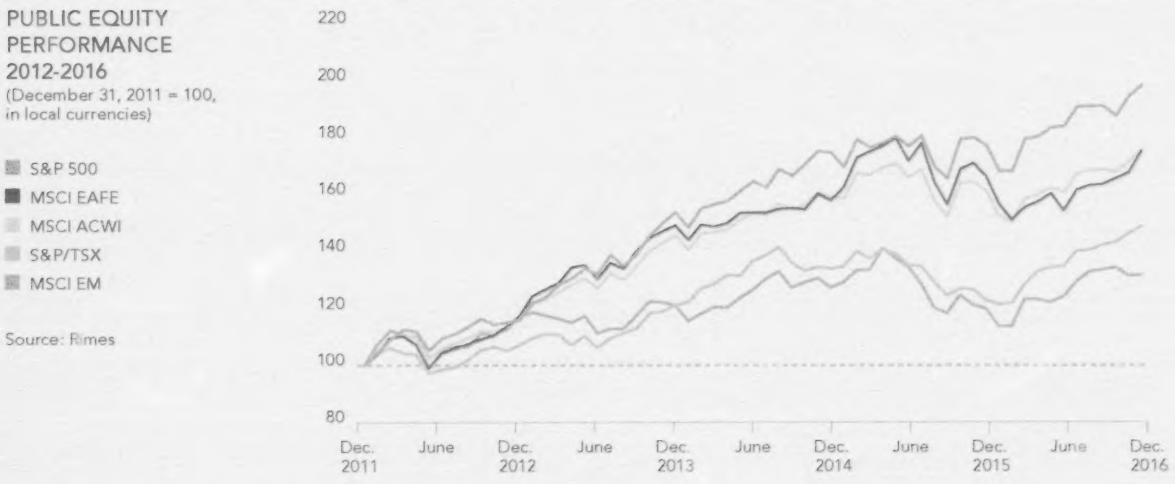
2016 return

For the period ended December 31, 2016, the new consolidated Public Equity portfolio had a 9.4% return and generated net investment results of $8.7 billion.

Since January 1, 2016, the portfolio has been managed in a more integrated fashion, and is composed of six mandates, including: Global Quality; Canada; Growth Markets; and Alternative Beta. All the mandates contributed positively to results.

FIGURE 16

PUBLIC EQUITY PERFORMANCE 2012-2016
(December 31, 2011 = 100, in local currencies)



Source: Rimes

GLOBAL QUALITY MANDATE

Return since its creation

Since it was implemented in 2013, this mandate has generated $13.8 billion of net investment results. Its four-year annualized return reached 18.6%, compared to 13.7% for its benchmark index, creating $3.6 billion of value-added. A significant portion of the return was due to positions in high-quality businesses incorporated in the U.S., as well as the strength of the U.S. dollar against the Canadian dollar over the period.

2016 return

In 2016, the mandate posted a 4.0% return, reflecting its goal of protecting capital and its structural underweight position in the financial sector. Though a depreciation of foreign currencies against the Canadian dollar weighed on performance, the mandate's exposure to the securities of quality companies incorporated in the U.S. proved profitable. As a result, the mandate provided $1.3 billion of net investment results.

CANADA MANDATE

Five-year return

The adoption of an absolute return approach – completed in early 2015 – proved beneficial to the mandate, as it generated $11.3 billion of net investment results over the five-year period. The portfolio had an annualized return of 10.6%, surpassing its benchmark index by 1.6%, thereby generating $1.8 billion of value-added.

The strategy of overweighting Canadian securities with exposure to the U.S. economy was profitable. The securities of companies in the Consumer sector, such as Couche-Tard, Gildan and Magna, performed particularly well.

2016 return

The mandate benefited from the strong performance of Canadian equity markets in 2016, delivering a 22.7% return and net investment results of $4.8 billion. All the sectors represented in the portfolio ended the year higher, though the main drivers of the mandate's performance were the Energy and Financials sectors, which contributed over two thirds of the return.

GLOBAL QUALITY MANDATE

COMPOSITION

- Securities of well-established companies, exposed to global growth, traded on the stock exchanges of countries in the MSCI ACWI Index (United States, Canada, Europe, Australasia, the Far East and emerging markets)
- Highly profitable and stable companies that have strong fundamentals over time, and which demonstrate a conservative use of financial leverage

ADVANTAGES

- Risk-adjusted return exceeding that of public equities over a long-term horizon
- Geographic diversification
- Protection against inflation over the long term
- Investments which are less sensitive to market fluctuations, and provide higher liquidity during periods of market turmoil

CANADA MANDATE

COMPOSITION

- Securities of publicly listed Canadian corporations, with an emphasis on the construction of a quality, concentrated portfolio that reflects distinctive aspects of the Canadian universe
- Businesses with competitive advantages that allow them to withstand market fluctuations while remaining exposed to growth
- Over 30% of the mandate is composed of shares of Québec companies, compared to 15% for the S&P/TSX Index

ADVANTAGES

- Long-term return exceeding that of fixed-income securities
- Protection against inflation over the long term

ANALYSIS OF PERFORMANCE BY ASSET CLASS

GROWTH MARKETS MANDATE

Five-year return

The mandate's annualized return was 8.1% over five years, representing $4.1 billion of net investment results. When compared to the benchmark index, this is close to $400 million of value-added.

La Caisse's external partners, particularly in China and India, have been significant contributors to the mandate's return since 2012. These established partners, which share la Caisse's long-term investment philosophy, responded well during market downturns, outperforming the index.

2016 return

Equities in certain growth markets, such as Brazil and South Africa, performed well in 2016 as commodity prices rallied. Brazil also profited from a somewhat improved political situation. This drove the mandate's 5.9% return, with net investment results of $950 million.

ALTERNATIVE BETA MANDATE

2016 return

Created in 2016, this mandate puts forward a strategy that consists of attributing a weight to each security held in the portfolio based on different measures – sales, cash flows, dividends and book value – rather than market capitalization (total value of all corporate shares on the market). The mandate's one-year return was 4.6%, with $806 million of net investment results. This performance was due to investments made in various businesses incorporated in the U.S. and favourable exposures to the Commodities and Energy sectors.

PRIVATE EQUITY

Five-year return

For the five-year period ended December 31, 2016, the Private Equity portfolio generated net investment results of $13.4 billion and had a 13.5% annualized return. It outperformed its benchmark index by 1.2%, creating $1.1 billion of value added.

Over the last few years, la Caisse has reduced the proportion of investments in funds in favour of direct investments, which now represent close to two thirds of the portfolio's activities. This strategy has proved beneficial, since over the last five years, direct investment decisions have outperformed those of funds.

Since 2012, la Caisse has invested $24.5 billion in private equity. As shown in Figure 17 on page 43, this has altered the geographical distribution of the portfolio's holdings, with an increase in investments in Canada, particularly in Québec, and to a lesser extent in other parts of the world, such as India and Australia.

2016 return

In 2016 the portfolio posted a solid 14.0% return, delivering $3.6 billion of net investment results. The direct investment activities were profitable, in both private and public companies.

GROWTH MARKETS MANDATE

COMPOSITION

- Securities listed on the stock exchanges of countries in the MSCI EM Index
- Class A shares listed on the Shanghai and Shenzhen stock exchanges

ADVANTAGES

- Return exceeding those of the equity markets of developed countries over the long term
- Geographic diversification
- The absolute return management component of the mandate is implemented alongside well-established local partners that have deep knowledge of the target markets

ALTERNATIVE BETA MANDATE

COMPOSITION

- Securities included in the MSCI World Index, excluding Canada

ADVANTAGES

- Weighting based on different measures (such as sales, cash flows, dividends and book value) rather than market capitalization.

During the year, the managers continued to implement a strategy based on long-term value creation. They were particularly active, committing a total of $7.8 billion of private equity, with investments around the world, including:

- Eurofins: a €200-million investment in this leading global provider of analytical laboratory testing in Europe;
- Edelweiss: a long-term partnership agreement to invest US$600 million to US$700 million over a four-year period in distressed assets and specialized credit in India;
- Greenstone Financial Services: acquisition of a 44% interest in this leading Australian insurance distributor;
- AlixPartners: alongside CVC Capital, the acquisition of an interest in this US-based global consulting firm;
- TVS Logistics Services: investment of US$155 million to acquire a significant minority stake in this Indian multinational that provides third-party logistics services.

La Caisse also continued to serve as an active partner in the growth and globalization of Québec companies. Major investments in 2016 included:

- McInnis Cement: la Caisse took control of the company to turn around operations and reinvested in order to complete the construction of this world-class cement plant, which is expected to begin deliveries in the spring of 2017;
- LASIK MD: investment in Canada's laser vision correction leader to foster its international growth.

La Caisse also backed the growth of medium-sized companies in 2016, including the Marcelle Group, which acquired Lise Watier Cosmetics; Fix Auto, which developed a franchise network; and Moment Factory, which created a new entity dedicated to permanent multimedia infrastructure projects.

Lastly, la Caisse emphasized innovation with the goal of helping SMEs that are poised to thrive in the new economy. It invested in Triotech, which designs, manufactures and markets rides based on a multi-sensorial experience; in Felix & Paul Studios, dedicated to storytelling through the medium of cinematic virtual reality; and in Stingray Digital Group, a market leader in multiplatform music services.

PRIVATE EQUITY PORTFOLIO

COMPOSITION

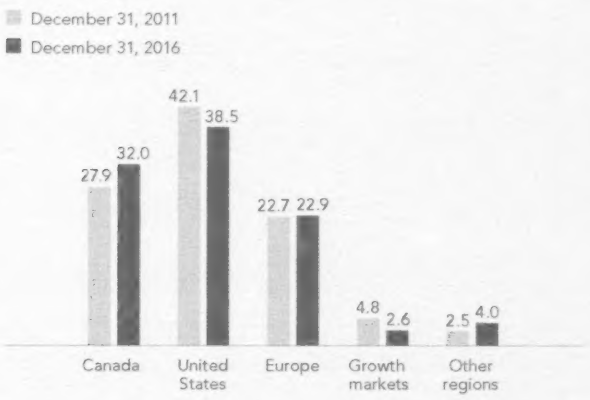
- Direct interests in both private corporations and public companies
- Companies active in all sectors of the economy, especially defensive sectors, and quality companies with stable, predictable revenues
- Stakes in high-performing investment funds

ADVANTAGES

- Expected long-term returns that exceed those of the equity markets

FIGURE 17

GEOGRAPHIC EXPOSURE – PRIVATE EQUITY
(as a percentage)



ANALYSIS OF PERFORMANCE BY ASSET CLASS

OTHER INVESTMENTS

ACTIVE OVERLAY STRATEGIES

The Active Overlay Strategies portfolio consists of non-capitalized investment activities with an absolute-return objective. Since its creation on January 1, 2014, it has generated $300 million of net investment-results, including $28 million in 2016. These results were mostly due to good performance in the external funds in the portfolio as well as tactical management operations.

ASSET ALLOCATION

Five-year results

Asset allocation activities generated net investment results of $1.2 billion over five years. The main contribution to these results comes from positions taken on liquid markets to reduce the opportunity cost associated with an under-weighting of the less-liquid portfolios compared to the weighting of the benchmark portfolio.

2016 results

In 2016, despite gains achieved through currency positions, asset allocation operations delivered negative results. This was due to an underweighting of U.S. equities in the portfolio and closure of the reduced-term strategy implemented in the wake of rate increases in the third quarter.

ABTN PORTFOLIO

Five-year results

Over five years, the ABTN portfolio delivered net investment results of $2.8 billion, attributable to the shorter average maturities of securities in the portfolio and tightening credit spreads on the riskier assets.

The provision fell from $4.0 billion as at December 31, 2011 to $88 million as at December 31, 2016.

2016 results

In 2016, this portfolio contributed net investment results of $140 million. As at December 31, 2016, the provision for the ABTN portfolio was only 2.2%, or $88 million, on assets of close to $4.0 billion. At the start of 2017, over $3.9 billion in assets were converted to cash. As most of the commitments have matured, the main operations of this portfolio were brought to a close in the first quarter of 2017.

RETURNS BY SPECIALIZED PORTFOLIO

Table 18 on page 45 presents the returns of the specialized portfolios and mandates in relation to their benchmark indexes for the five-year and one-year periods ended December 31, 2016.

ACTIVE OVERLAY STRATEGIES PORTFOLIO

COMPOSITION

- Non-capitalized portfolio
- Investments in external funds
- Internally managed positions on financial markets, mainly in the form of financial instruments that are liquid and transparent

ADVANTAGES

- Moderate risk-return profile
- Possibility of generating returns above those of bonds with less risk than with equity markets
- Diversification
- Low correlation with equity markets

ASSET ALLOCATION PORTFOLIO

COMPOSITION

- Non-capitalized portfolio
- Positions on financial markets, mainly in the form of financial instruments that are liquid and transparent

ADVANTAGES

- Calibration of the risk-return profile of la Caisse's overall portfolio
- Enhancement of the overall portfolio's return
- Exposure to asset classes that diversify the overall portfolio

TABLE 18

SPECIALIZED PORTFOLIO RETURNS IN RELATION TO BENCHMARK INDEXES

(for periods ended December 31, 2016)

			5 years			1 year		
Specialized portfolio	2016 Index	Net assets $B	Net investment results $M	Return %	Index %	Net investment results $M	Return %	Index %
Fixed Income								
Bonds	FTSE TMX Canada Universe Bond, adjusted[7]	68.0	10,709	3.9	3.3	1,915	3.1	1.7
Real Estate Debt	FTSE TMX Canada Universe Bond	11.6	2,237	4.9	3.2	282	2.6	1.7
Short Term Investments	FTSE TMX Canada 91 Day T-Bill	6.2	288	0.9	0.8	27	0.5	0.5
Long Term Bonds	FTSE TMX Government of Canada long-term bonds, adjusted[7]	2.6	449	4.1	4.2	33	2.1	2.1
Real Return Bonds	FTSE TMX Canada Real Return Bonds	1.1	48	1.3	1.4	30	2.8	2.9
Total		89.5	13,731	3.7	3.1	2,287	2.9	1.8
Real Assets								
Real Estate	Index, hedged, composed of 85% of IPD Global Property Index, adjusted, and of 15% of IPD Global Property Fund Index, less a leverage cost, a management cost and taxes	31.7	12,997	12.1	12.5	2,966	10.4	7.2
Infrastructure	MSCI ACWI Infrastructure Index, partially hedged and adjusted	14.7	4,424	10.0	12.5	1,418	11.1	10.8
Total		46.4	17,421	11.5	12.3	4,384	10.6	8.6
Equity								
Global Quality mandate[1]	Index consisting of 85% MSCI ACWI Index, unhedged, and 15% FTSE TMX Canada 91 Day T-Bill Index	36.1	13,795	18.6[8]	13.7[8]	1,316	4.0	3.7
Canada mandate[2]	Index consisting of 90% S&P/TSX Capped Composite Index and 10% Morningstar National Bank Québec Index	24.7	11,342	10.6	9.0	4,775	22.7	20.1
Growth Markets mandate[3]	MSCI EM, unhedged and adjusted	16.2	4,057	8.1	7.3	950	5.9	5.3
Alternative Beta mandate	MSCI World Ex Canada, unhedged	18.0	806	N/A	N/A	806	4.6	3.3
Public Equity[4]	Index consisting of 60% MSCI World Ex Canada Index, unhedged, 25% S&P/TSX Index, 15% MSCI EM Index, unhedged, and 10% FTSE TMX Canada 91 Day T-Bill Index[7]	101.3	50,311	14.1	12.2	8,690	9.4	7.5
Private Equity	Index, partially hedged, consisting of 50% MSCI World and 50% State Street Private Equity Index[7]	30.4	13,356	13.5	12.3	3,585	14.0	8.8
Total		131.7	63,667	14.0	12.3	12,275	10.4	7.9
Other								
Active Overlay Strategies		0.6	300	N/A	N/A	28	N/A	N/A
Asset Allocation[5]		1.5	1,190	N/A	N/A	(135)	N/A	N/A
ABTN		0.2	2,763	N/A	N/A	140	N/A	N/A
Total[6]		270.7	100,006	10.2	9.1	18,417	7.6	5.8

[1] Includes the Global Quality Equity portfolio history before 2016.
[2] Includes the Canadian Equity portfolio history before 2016.
[3] Includes the Emerging Markets Equity portfolio history before 2016.
[4] Includes the activities of the Relationship Investing mandate and the Strategic mandate over one year, and the five-year returns of the closed public equity portfolios.
[5] Results include the specialized portfolio and overlay operations.
[6] The total includes the customized overlay operations, cash activities and completed activities.
[7] This index is detailed in the Tables of Returns section of the Additional Information.
[8] Return since the start of the mandate (4 years).

RISK MANAGEMENT

RISK MANAGEMENT AT LA CAISSE

In 2016, modest growth in the global economy and significant geopolitical risks led la Caisse to adopt a defensive position, which resulted in a significant decline in its financial risks compared to 2015. This conservative approach led to a reduction in the market risk of the overall portfolio in relation to the benchmark portfolio, while generating a solid return. The Risk group continued to strengthen its oversight processes and its risk management tools.

Highlights

1

In 2016, the level of market risk in the overall portfolio declined significantly compared to 2015, despite an increased weighting in less-liquid asset classes.

2

The high level of risk management governance established at la Caisse was confirmed by an audit performed by the Internal Audit team with the support of an external firm.

3

The Risk group consolidated its operating structure, emphasizing cross-sector analysis, and provided balance in the investment committees.

CHANGES IN RISK MEASUREMENT

Over the past few years, la Caisse has implemented a series of initiatives aimed at efficiently integrating risk management into all its activities. It has improved its tools considerably, and has developed an effective and sustained system of governance.

In 2016, la Caisse deployed its investment strategies by proactively managing risk and taking into account the global economic environment, changes in financial markets, and sectoral and geographic concentrations in its portfolio. The main risks identified and which will be monitored in 2017 include:

- Uncertainty over the policies and measures to be implemented by the new U.S. administration;
- Instability and volatility in Europe, exacerbated by consistent migration pressures, potentially difficult negotiations over Brexit, the threat of terrorism, and the rise of populism;
- Stagnating growth in Canada and uncertainty over whether the United States will introduce measures that will affect the Canadian oil industry;
- Slowing growth in China and its shift toward a consumer-oriented economy, which has proved more difficult than expected;
- The difficult economic situation in Brazil and the challenges faced by the Brazilian government in effecting a quick and sustainable turnaround following the crisis.

Market risk

Since the end of 2011, various factors have helped reduce the level of market risk in la Caisse's overall portfolio:

- The institution's adoption of absolute-return management;
- The Global Quality strategy (see Figure 19, p. 47);
- Increased exposure to foreign currencies;
- Shorter maturities in the ABTN portfolio.

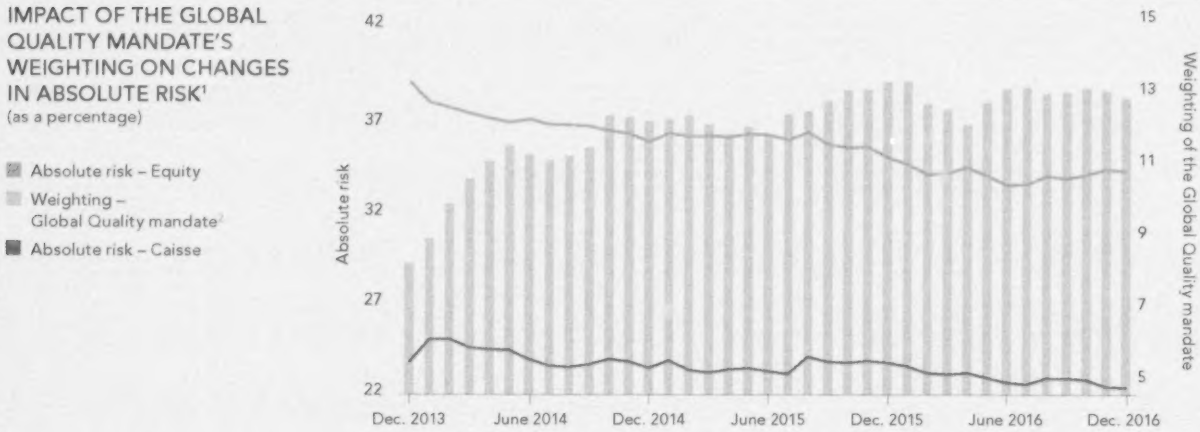
As can be seen in Figure 20, on page 47, the absolute risk of la Caisse's overall portfolio and of the benchmark portfolio moved practically in step over a certain period of time. However, in the first half of 2016, the level of

absolute risk in the overall portfolio declined, while risk in the benchmark portfolio remained fairly constant. As at December 31, 2016, the former was 22.9% and the latter was 24.0%.

This change resulted in the decline in the ratio of the overall portfolio's absolute risk relative to that of its benchmark portfolio (see Figure 21, p. 48). Recall that since 2013, market risk has been managed by limiting absolute risk, based on this ratio. After having been relatively stable since mid-2014,

FIGURE 19

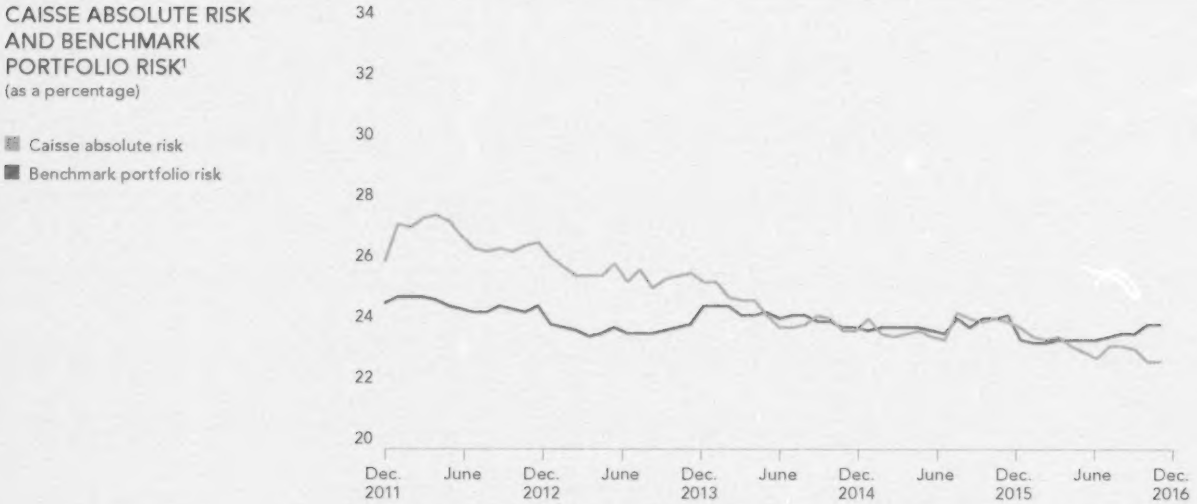
IMPACT OF THE GLOBAL QUALITY MANDATE'S WEIGHTING ON CHANGES IN ABSOLUTE RISK[1]
(as a percentage)



1. The risk figures preceding June 2014 were adjusted to reflect the changes in the risk calculation methodology that occurred in 2014.
2. Before 2016, corresponds to the Global Quality Equity portfolio.

FIGURE 20

CAISSE ABSOLUTE RISK AND BENCHMARK PORTFOLIO RISK[1]
(as a percentage)



1. The risk figures preceding June 2014 were adjusted to reflect the changes in the risk calculation methodology that occurred in 2014.

RISK MANAGEMENT

the absolute risk ratio fell from 0.99 at the end of 2015 to 0.95 at the end of 2016. This shows that value has been added with a conservative approach, by taking on less risk than the benchmark portfolio.

All of the asset classes contributed to the decline in risk at la Caisse compared to 2015 (see Table 22, p. 49), but the decline was mainly due to the following factors:

- A lesser weighting in the stock market compared to the benchmark portfolio;
- Better currency diversification due to a greater exposure to foreign currencies in the Private Equity portfolio.

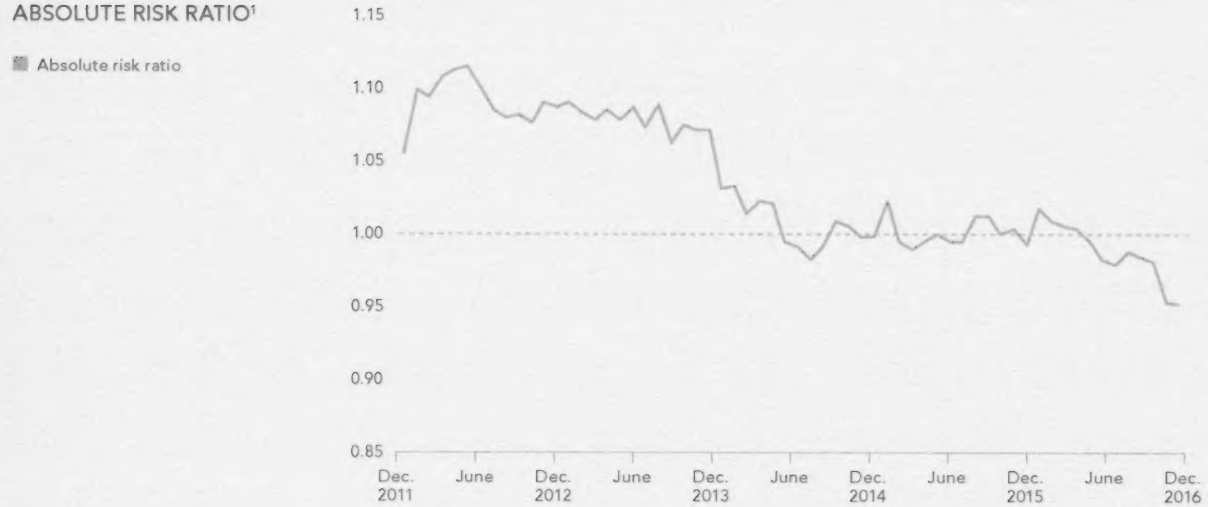
It should be noted that market risk declined despite a greater weighting of portfolios holding less-liquid assets – Real Estate, Infrastructure and Private Equity – assets central to la Caisse's strategy (see Table 10, p. 32).

Credit risk

The credit risk of the Bonds portfolio increased slightly in 2016, staying well below the limit set by the policy. To measure and monitor this risk, la Caisse uses potential capital losses, a measure that incorporates probabilities of default, correlations and recovery assumptions. To ensure sound management of credit risk, the teams in the Risk group analyze and monitor portfolio investments. They ensure that an internal rating has been set for each investment, and they revise the ratings. Changes to internal credit ratings, including differences with the ratings given by agencies, are closely monitored by an independent internal credit committee consisting primarily of members of the risk management and investment teams. In 2016, the committee reviewed 165 issuers.

FIGURE 21

ABSOLUTE RISK RATIO[1]



1. The risk figures preceding June 2014 were adjusted to reflect the changes in the risk calculation methodology that occurred in 2014.

Concentration risk

Despite the increasingly large positions taken in certain investments, the overall portfolio's concentration risk remained stable in 2016. To mitigate this risk, la Caisse ensures sound geographic and sectoral diversification of its assets. It continued to diversify in 2016 by investing in varied sectors and by increasing its exposure to global markets, in particular to the United States and growth markets.

Counterparty risk

La Caisse's counterparty risk increased in 2016 compared to 2015, but remained low overall. To manage this risk, every day la Caisse tracks a series of financial indicators for each of its counterparties. Their financial health is periodically assessed by the organization's experts in finance and risk management. Throughout the year, la Caisse actively monitored changes in the credit quality of its counterparties (see Table 23).

Liquidity risk

In 2016, la Caisse maintained an adequate level of liquidity. During the year, a new method of managing liquidity was implemented. To this end, the needs are determined in order to build a reserve consisting of primary liquid assets that can be used immediately without any loss of value, and secondary liquid assets that are slightly less liquid but can nevertheless be quickly converted into cash. These securities are resilient even during sharp market downturns. In this way, la Caisse establishes a minimum threshold of liquid assets to maintain in the reserve in order to meet its potential commitments as well as those of its depositors, to rebalance the overall portfolio, and to take advantage of market declines and reinvest in value-added assets.

As at December 31, 2016, la Caisse had an amount of liquid assets that would easily meet the institution's potential commitments, even in the event of a major market correction (see Note 12 to the Consolidated Financial Statements, on page 158).

TABLE 22

MARKET RISK – ABSOLUTE
(as a percentage of total net value of the asset class as at December 31)

Asset class	2016	2015[1]
Fixed Income	**8.5**	8.7
Real Assets	**30.8**	32.5
Equity	**34.6**	35.3
Other investments	**0.9**	1.2
Overall	**22.9**	24.2

1. The 2015 risk figures were recalculated to reflect the new asset classes.

TABLE 23

EXPOSURE TO COUNTERPARTY RISK[1,2]
(as at December 31 – in millions of dollars)

	2016	2015	2014[3]	2013[3]	2012[3]
Gross exposure without offsetting effect	**872.8**	741.7	1,059.7	1,918.1	2,464.7
Net exposure under ISDA agreements[4]	**81.2**	5.4	61.8	97.5	51.5

1. Over-the-counter derivatives with and by the real estate subsidiaries are excluded.
2. Offset over-the-counter derivatives are excluded.
3. Figures preceding 2015 have been adjusted to exclude over-the-counter derivatives negotiated between la Caisse and its subsidiary Ivanhoé Cambridge.
4. Net exposure under ISDA agreements is gross exposure less offsetting of amounts at risk and exchange of collateral.

RISK MANAGEMENT

REVIEW OF OVERSIGHT AND PROCESSES

In 2016, la Caisse strengthened its risk management oversight and processes while continuing to follow its guidelines (see Note 12 to the Consolidated Financial Statements, p. 158).

Review of risk governance

During 2016, la Caisse's Board of Directors mandated the Internal Audit team and an external specialized firm to audit risk management governance and practices, in accordance with industry best practices. To this end, the models and practices used by its risk management team were reviewed and compared with its peers, and a high degree of progress was confirmed.

Strategic planning of investments and strategic risk monitoring

The risk management teams played a key role throughout the annual strategic investment planning process. They performed numerous analyses to identify the issues and assess the risks associated with the orientations and strategies under consideration. Working with Investment Management and the various investment groups, they participated in the development of the 2017-2020 strategic priorities.

A stronger Risk function

The Risk group continued to demonstrate its influence. This was apparent in several ways, including:

- An active presence on many committees, including the Investment-Risk Committee, the Investment and Risk Management Committee of the Board, the Operational Risk Committee, the Currency Committee, the Research Committee and the investment committees;
- Consolidation of the business unit risk manager position in order to support and advise the investment teams. Integrated into each group, in addition to providing support to portfolio managers in the optimal management of risk, these risk experts play a key role balancing risk and return every day.

Stronger process for managing cross-sectoral risk

Specific attention was paid to cross-sectoral analysis in 2016. The team responsible for this component performed several in-depth analyses on cross-sector issues that could affect all of the investment portfolios. Other items that strengthened cross-sector risk management during the year include the liquidity management approach described above and better oversight of asset allocation activities.

Mitigation of operational risks

The Operational Risk Committee continually monitors significant operations-related risks identified by la Caisse. Various activities were carried out during the year to mitigate these risks:

- Transactional processes in private equity and infrastructure: revision of the criteria used in the background screening of external partners and improved structures for holding and monitoring disbursed funds, particularly as part of international investments.
- Fraud and corruption: online training for employees and implementation of additional controls.
- Cash: complete review of the process.
- Business continuity: formalizing of overall framework for managing incidents and running of exercises simulating emergency situations.
- CDPQ Infra: evaluation of the procurement process and selection of firms for calls for tender.

New asset class oversight and monitoring

La Caisse amended several of its investment policies to reflect the orientations adopted in its strategic planning. The Risk group participated in this exercise by reviewing its processes for monitoring and following up on the work of managers. This resulted in changes, notably in the investment policies of the Bonds, Public Equity and Private Equity portfolios.

La Caisse conducted an annual review of the target returns and risk limits for the overall portfolio and the specialized portfolios. It also established new policies on consolidated asset allocation activities and the framework for dynamic management of currency exposures in the overall portfolio effective on January 1, 2017.

IMPROVED RISK MANAGEMENT METHODOLOGIES AND TOOLS

The risk management teams continued to refine their quantitative analysis methodologies and tools in order to provide better risk monitoring. In 2016, the improvements included:

- The development of a framework for comparing the expected returns on investments;
- An improved risk breakdown method for la Caisse based on major factors;
- An inventory of the practices used when measuring capital losses, with a view to developing an action plan;
- Identification of alternative solutions to improve the method for assessing market risk in the overall portfolio, i.e. value at risk (VaR);
- A new orientation in order to better integrate depositors' liabilities into the risk analysis;
- An analysis of the impact of factors that compromise the sustainability of profits in certain businesses.

New stress tests

Risk management teams conducted various stress tests to quantify the potential impacts of certain market events on the overall portfolio. These tests enhance the array of scenarios developed to support investment decision-making.

Accountability in investment activities

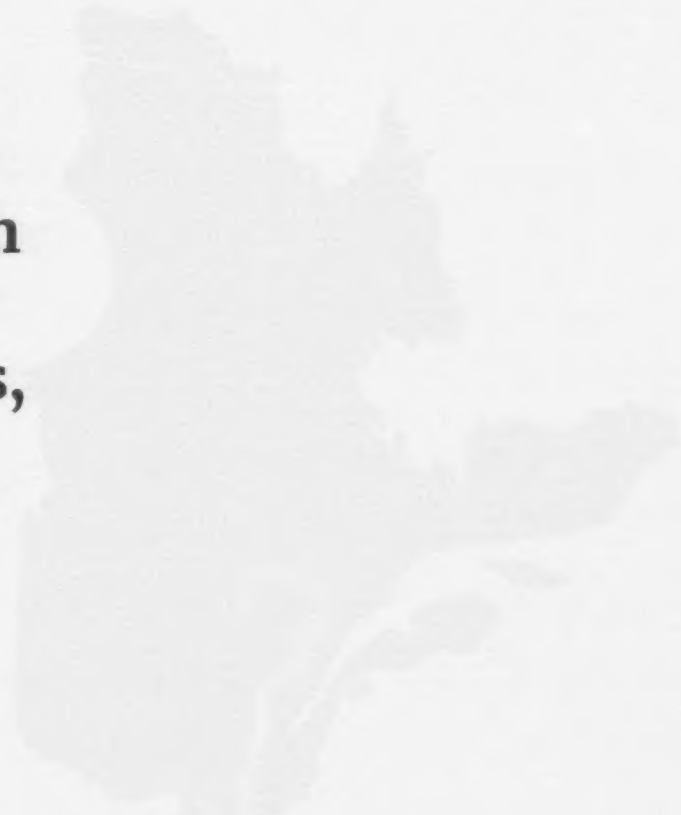
The Caisse investment teams and the Risk group continued to work on ensuring better accountability in la Caisse's portfolios and investment activities, particularly through semi-annual reporting, the Investment and Risk Management Committee's work, and the risk-return report prepared in collaboration with the Finance group.

La Caisse in Québec

LA CAISSE'S ACHIEVEMENTS IN QUÉBEC

An active partner in the growth of Québec companies,

drivers of the Québec economy



$13.7B

NEW INVESTMENTS AND COMMITMENTS OVER THE PAST 5 YEARS, INCLUDING $2.5 B IN 2016

550+

SMEs THROUGHOUT QUÉBEC THAT PARTNER WITH LA CAISSE

330

BUILDINGS OWNED OR FINANCED

CONTINUOUSLY STRENGTHENING THE PRIVATE SECTOR

More than ever, la Caisse is focusing on the private sector: businesses, real estate and infrastructure. Why? Because it drives economic growth in Québec. Over the past five years, our total assets in the private sector have increased significantly. And this will continue to be a priority in the coming years.

Three main priorities in Québec

- GROWTH AND GLOBALIZATION
- IMPACTFUL PROJECTS
- INNOVATION AND THE NEXT GENERATION

$36.9 B

TOTAL ASSETS IN QUÉBEC'S PRIVATE SECTOR, REPRESENTING 63% OF OUR $58.8 B OF ASSETS IN QUÉBEC

LA CAISSE'S ACHIEVEMENTS IN QUÉBEC

The three pillars of our approach

In Québec, our strategy is based on three main priorities.

GROWTH AND GLOBALIZATION

Engage as an active partner in the growth and globalization of Québec companies, particularly by leveraging our international network.

Fix Auto

La Caisse has been a partner to Fix Auto since 2015. We have made two investments, to enable the company to continue its expansion across Canada among other projects.

In 2016, we also helped the company expand its business in Australia and China through our teams in Sydney and Singapore. For the company, these initiatives opened doors and accelerated its growth process.

Fix Auto today

- More than 550 locations in 9 countries, including more than 240 in Canada
- A network of some 140 Speedy and Novus Glass, and Minute Muffler & Brake repair shops
- At the forefront of a highly competitive industry as a result of its expansion into new markets

Fix Auto's global network

IMPACTFUL PROJECTS

Undertake impactful projects, in particular in real estate and infrastructure, to benefit our depositors, the Québec economy and all Quebecers.

INNOVATION AND THE NEXT GENERATION

Focus on innovation and the next generation, develop ecosystems to work with SMEs that will succeed in the new economy, and stimulate entrepreneurship.

The Réseau électrique métropolitain

Announced in spring 2016, the Réseau électrique métropolitain (REM) will link downtown Montréal to the South Shore, the West Island, the North Shore and the airport. With its fully automated light rail transit (LRT) system, the REM will be the fourth largest automated transit network in the world.

Some positive benefits

The potential benefits of the REM may add as much as $3.7 billion to Québec's GDP.

- 34,000 direct and indirect jobs during construction
- More than 1,000 permanent jobs once in operation
- A reduction in GHG emissions of approximately 35,000 tonnes, in the first year of operation

The project at a glance

67 km	Of double tracks
4	Branches linked to downtown
27	Stations
3	Connections to the métro's Green, Orange and Blue lines
9	Bus terminals
13	Park-and-ride lots
20 hrs	Per day, from 5 a.m. to 1 a.m.

Spectra Premium

In 2016, la Caisse joined forces with other Québec investors to reorganize the share ownership of Spectra Premium. This North American leader in the design, manufacture and distribution of automotive parts and components is also at the forefront of fuel systems for plug-in hybrid vehicles.

As part of its effort to ensure the company's future leadership, the management team at Spectra Premium was seeking to strengthen and diversify its share ownership. We played a key advisory role during their share buyback. This contribution, along with our international network and the expertise of our teams, will enable the company to continue to refine its product offering of innovative solutions in order to grow and develop new markets.

Spectra Premium at a glance

4	Manufacturing plants, including in Boucherville and Laval
18	Warehouses in North America
1,100	Employees in Québec, of a total workforce of 1,500
$600 M	Sales in 2016, primarily in the United States, Europe and Mexico

LA CAISSE'S ACHIEVEMENTS IN QUÉBEC

A SUSTAINABLE COMMITMENT GENERATING TANGIBLE RESULTS

La Caisse is a leading institution in Québec. It has an in-depth understanding of the market, and plays an impactful role that goes beyond investing. Drawing on its teams' expertise and its comparative advantages, it aims to generate impacts that benefit its depositors and the Québec economy as a whole.

La Caisse's role in Québec has evolved considerably over the years. Today it is focusing more than ever on the private sector, an essential driver of the Québec economy in which la Caisse intends to further increase its presence. As such, it actively works with Québec companies to foster their expansion projections at home and internationally. It designs and develops major real estate and infrastructure projects, and focuses on innovation and the next generation in order to stimulate the growth of SMEs that are well-positioned to succeed in the new economy.

In 2016, la Caisse's three-pillar approach led to new investments and commitments of $2.5 billion, bringing the five-year total to $13.7 billion.

In addition, la Caisse focused more than ever on its strategic advantages to optimize its impact in Québec: the expertise of its teams in many sectors, including real estate and infrastructure; its business relationships in Québec and globally; its offices in eight countries; and its partner companies in Québec and around the world. This strategy led to achievements beyond financial returns: construction and revitalization projects in Montreal and Québec City; the Réseau électrique métropolitain (REM); and the creation of Espace CDPQ, aimed at accelerating the growth and globalization of Québec SMEs.

As at December 31, 2016, CAISSE TOTAL ASSETS IN QUÉBEC STOOD AT $58.8 BILLION, $36.9 BILLION OF WHICH WAS INVESTED IN THE PRIVATE SECTOR.

TABLE 24

ASSETS AND COMMITMENTS IN QUÉBEC – PRIVATE EQUITY AND INFRASTRUCTURE
(as at December 31 – in millions of dollars)

	2016			2015		
	Assets	Undisbursed commitments	Assets and undisbursed commitments	Assets	Undisbursed commitments	Assets and undisbursed commitments
Small and medium-sized businesses	1,354	643	1,997	980	673	1,653
Large businesses	8,067	614	8,681	7,543	266	7,809
Total	9,421	1,257	10,678	8,523	939	9,462

PARTNER OF QUÉBEC COMPANIES FOR THE LONG TERM

La Caisse contributes to the growth of strong Québec companies that are well positioned to compete with the best in their industry and in global markets. It builds long-term partnerships and develops financing solutions for every stage of their development.

WORKING WITH MEDIUM-SIZED AND LARGE QUÉBEC BUSINESSES

La Caisse has developed unique expertise in helping medium-sized and large companies in their growth and globalization projects as well as in their efforts to innovate and prepare the next generation. In 2016, for example, it contributed to important growth projects by Groupe Marcelle, Lasik MD and Fix Auto. La Caisse's investments in Triotech, Stingray Digital Group and AddÉnergie were prime examples of the importance it places on innovation and the next generation.

INVESTMENT ACTIVITIES – PRIVATE EQUITY AND INFRASTRUCTURE

In 2016, la Caisse's total Québec assets in private equity and infrastructure totalled $9.4 billion (see Table 24, p. 58). The 10 largest private equity and infrastructure investments in Québec are listed in Table 25, while examples of transactions conducted during the year are presented on pages 62 and 63.

La Caisse also invests in publicly-traded Québec companies with market capitalization of less than $1 billion. This commitment helps stimulate Québec's equity market and the growth of these companies. Some examples of notable transactions executed in 2016 are provided on page 62.

TABLE 25

TOP 10 QUÉBEC INVESTMENTS – PRIVATE EQUITY AND INFRASTRUCTURE
(as at December 31, 2016)

Laurentian Bank of Canada
BRP
CAMSO (formerly Camoplast Solideal)
McInnis Cement
CGI Group
WSP Global Group
Innergex Renewable Energy
Quebecor
TAD Canco (Kruger)
Trencap (Gaz Métro)

LA CAISSE'S ACHIEVEMENTS IN QUÉBEC

INVESTMENT ACTIVITIES – PUBLIC EQUITY

As at December 31, 2016, assets in Québec public equities totalled $8.5 billion (see Table 26). Table 27 lists the top 10 public equity positions.

The weight of Québec securities in la Caisse's Canada mandate within the Public Equity portfolio, stood at 31.1%, more than twice the weight of Québec securities in the S&P/TSX index, which was 15.4% for the same period.

PARTNERSHIPS WITH FUNDS TO FUEL THE GROWTH OF SMEs

La Caisse has formed partnerships with a number of funds in Québec. This strategy enables it to fuel the growth of SMEs while accessing a pipeline of promising businesses, allowing la Caisse to identify and target candidates for direct investments.

La Caisse's teams have analyzed the companies in these partner funds, and continuously follow their progress. This exercise allowed la Caisse to identify the most promising companies in which it could invest directly. A new investment made in 2016 was a direct result of this strategy: Hopper, an SME in the Brightspark Ventures fund. This was also the case in 2015 for Lightspeed, a company in the iNovia Capital portfolio.

TABLE 26

QUÉBEC ASSETS IN THE PUBLIC EQUITY PORTFOLIO
(as at December 31 – in millions of dollars)

	2016	2015
Public Equity	**8,472**	8,193

TABLE 27

TOP 10 QUÉBEC POSITIONS – PUBLIC EQUITY
(as at December 31, 2016)

Alimentation Couche-Tard
National Bank of Canada
Canadian National Railway Company
Dollarama
CGI Group
SNC-Lavalin Group
Industrial Alliance, Insurance and Financial Services
Power Corporation of Canada
Saputo
Gildan Activewear

INNOVATION CAPITAL

Through targeted partnerships with well-established funds that invest in Québec, la Caisse strives to ensure that new SMEs in the IT industry can successfully navigate the initial stages of their development. In 2016, la Caisse made a number of new commitments, including:

- $26.8 million in the Georgian Partners Growth III fund, which makes investments in technology companies that specialize in artificial intelligence and natural-language programming;
- $13.4 million in the Relay Ventures III fund, which targets startup technology companies specializing in innovative mobile apps;
- $4 million in the iNovia III fund, which focuses on startup companies in the information technology sector.

Also in 2016, la Caisse launched Fonds Espace CDPQ, a $50-million fund; of this, $40 million will be earmarked to finance innovative Québec SMEs targeting global expansion, and $10 million has been distributed to two startup funds in Québec City and Montréal that finance companies emerging from incubators and accelerators across Québec.

La Caisse has also had an ongoing partnership with Teralys Capital since its inception in 2009. Teralys invests in and develops specialized venture capital funds in the information technology, life sciences and green technology sectors. Through its various funds and through direct investment, Teralys invested a total of $142 million in 50 Québec companies in 2016.

CAPITAL CROISSANCE PME FUND

In 2016, la Caisse renewed its commitment to Capital croissance PME (CCPME). A joint investment of $90 million with Capital régional et coopératif Desjardins (CRCD) was announced in 2017, bringing the fund, which is funded equally by the two partners, to $540 million.

CCPME offers Québec SMEs financing for their growth projects. It aims to meet financing needs of less than $5 million and focuses particularly on the growth of businesses in the regions of Québec. Since its creation in 2010, it has authorized investments of $375 million in 322 SMEs, 77% of which are located outside Montréal and the Québec City area. In 2016, the fund invested a total of $47 million in 70 businesses.

LA CAISSE'S ACHIEVEMENTS IN QUÉBEC

SOME OF OUR DIRECT INVESTMENTS

La Caisse invested in many businesses in 2016. These investments targeted companies showing high potential for growth. Here are a few examples:

LASIK MD

Laser vision correction
> $25-million investment
> For an acquisition in the United States

h2o innovation

Integrated and custom-built water treatment systems
> Additional $3.8-million share purchase
> To enable an acquisition in the United States

DEMERS AMBULANCES

Design, manufacture and distribution of ambulances
> Close to 20% interest
> For international growth and the consolidation of market share in Canada

Harmois Groupe pétrolier

Independent Québec distributor of petroleum products
> $30-million investment
> For the expansion of its network and the development of flex-fuel stations that include electric charging terminals

DERYtelecom

Cable, Internet and telephone services in eight Québec regions
> $5-million financing
> To facilitate the company's succession process and foster its growth

STINGRAY

Provider of multiplatform music services
> Additional $16-million share purchase

PARTNERSHIPS THAT GO BEYOND INVESTMENTS

Complementing its financial commitments, la Caisse reinforces the growth of Québec companies by leveraging the expertise and business knowledge of its teams, and the strength of its global network.

Companies we actively worked with in 2016

GROUPE MARCELLE COSMETICS | COSMÉTIQUES

Cosmetics manufacturer and distributor
> $18-million investment
> For the acquisition of Lise Watier Cosmétiques

McINNIS. THE NEW CEMENT COMPANY

Cement plant with cutting-edge technology
> Additional $150-million investment (as part of overall financing of $280 million)
> Implementation of a new ownership structure and turnaround of operations

hopper

Mobile app that predicts airfares and sells airline tickets
> $40-million investment
> For the app's expansion and the international growth of the company

AddÉNERGIE

Smart charging solutions for electric vehicles
> $8.5-million investment
> For the cross-Canada expansion of its network and technology

MOMENT FACTORY

Multimedia entertainment leader
> Overall financing of $18-million
> For the creation of a new entity

fix auto

Collision repair shop franchises
> Additional $2.4-million investment, bringing the total investment to $10.6 million
> For the acquisition of Prime CarCare Group, which operates 142 franchise locations in Canada

TRIOTECH

Design, manufacture and marketing of rides based on a multi-sensorial experience
> Overall investment of $40 million
> To further its international growth

LA CAISSE'S ACHIEVEMENTS IN QUÉBEC

A LEADER IN QUÉBEC REAL ESTATE

Through its two subsidiaries, Ivanhoé Cambridge and Otéra Capital, la Caisse plays a leading role in Québec's real estate sector. Their investments and activities generate important economic benefits for cities and for Québec as a whole.

As at December 31, 2016, la Caisse's real estate assets in Québec, as detailed in Table 28, totalled $10.5 billion. The 10 largest real estate investments in Québec are presented in Table 29 on page 65.

IVANHOÉ CAMBRIDGE

Ivanhoé Cambridge, a world-class real estate company, is a leader in Québec's office building and shopping centre sector. As at December 31, 2016, it owned 27 buildings in Québec with a total value of $6.2 billion. These holdings include eight shopping centres, eight office buildings, three luxury hotels and a residential complex. In all, its Québec portfolio reaches 11.9 million square feet of space (1.1 million square metres).

During the year, Ivanhoé Cambridge continued to implement its plan for downtown Montréal, which included:

- the ongoing construction of Maison Manuvie, a 27-storey building scheduled to open in fall 2017, and where a second major tenant – the firm EY – signed a lease in 2016;
- the ongoing revitalization of Fairmont The Queen Elizabeth, a project valued at more than $140 million, which will transform the experience for guests of this world-renowned hotel;
- the opening of Au Sommet Place Ville Marie, an entertainment and dining destination on the top floors of 1 Place Ville Marie.

A partnership with Claridge was also launched to invest around $100 million, alongside private property developers, in mid-sized real estate projects in the Greater Montréal area.

In Québec City, Ivanhoé Cambridge finished modernizing the Laurier Québec shopping centre and continued to upgrade Place Ste-Foy, including the addition of two multi-level parking facilities. Phase 1 of the Quartier QB residential complex was also delivered, while construction on Phases II and III continued to progress. Once finished, the project will offer more than 680 rental units. Finally, a $44-million modernization project was launched in Sherbrooke at Carrefour de l'Estrie.

OTÉRA CAPITAL

Otéra Capital, one of Canada's leading mortgage lenders, is highly present in Québec, where it managed assets totalling $4.3 billion as at December 31, 2016. Otéra Capital finances more than 300 commercial buildings across Québec. In 2016, the company granted some 30 new loans and refinancings.

TABLE 28

REAL ESTATE ASSETS AND COMMITMENTS IN QUÉBEC
(as at December 31 – in millions of dollars)

	2016			2015		
	Assets	**Undisbursed commitments**	**Assets and undisbursed commitments**	Assets	Undisbursed commitments	Assets and undisbursed commitments
Shopping centres	**3,235**	**98**	**3,333**	3,458	56	3,514
Offices	**4,631**	**195**	**4,826**	4,459	264	4,723
Residential	**612**	**297**	**909**	415	227	642
Other	**2,047**	**118**	**2,165**	1,982	153	2,135
Total	**10,525**	**708**	**11,233**	10,314	700	11,014

AN INNOVATIVE MODEL FOR PUBLIC INFRASTRUCTURE PROJECTS

Created in 2015 as a unique model to finance and carry out public infrastructure projects, CDPQ Infra, a subsidiary of la Caisse, announced its first public transit project in the Greater Montréal area in April 2016.

The objective of this integrated system is to link downtown Montréal to the South Shore, the West Island, the North Shore and the airport. The Réseau électrique métropolitain (REM), which will span 67 kilometres and include 27 stations, will provide service 20 hours a day, seven days a week.

PROJECT PROGRESS

During the year, CDPQ Infra conducted an extensive public consultation exercise comprised notably of some 100 meetings with nearly 300 representatives from a variety of organizations, as well as a dozen open house events attended by more than 3,000 people.

As a result of these consultations, significant optimizations were made to the project:

- the addition of three stations in downtown Montréal (Édouard-Montpetit, McGill and Bassin Peel), connecting the REM to the Blue, Orange and Green métro lines;
- agreement with CN to acquire an aerial structure to enable the use of elevated tracks and preserve heritage buildings in Griffintown;
- changes to the route to preserve natural areas in Sainte-Anne-de-Bellevue and Des Sources nature park.

CDPQ Infra also launched the request for qualification process, at the end of which five consortia qualified: two for the infrastructure engineering, procurement and construction component and three for the supply of rolling stock, systems and operation, and regular and long-term maintenance of the infrastructure and certain assets.

At the beginning of 2017, the Bureau d'audiences publiques sur l'environnement (BAPE) released its report. At the end of March, the government of Québec has committed for $1.28 billion to become a minority shareholder in the project. Construction of the REM is expected to begin in 2017, and the first trains should be in operation by the end of 2020.

TABLE 29

TOP 10 QUÉBEC INVESTMENTS – REAL ESTATE
(as at December 31, 2016)

Montréal Eaton Centre, Montréal
Édifice Jacques-Parizeau, Montréal
Fairmont Le Château Frontenac, Québec City
Fairview Pointe-Claire, Pointe-Claire
Galeries d'Anjou, Montréal
Laurier Québec, Québec City
Le 1000 De La Gauchetière, Montréal
Place Ste-Foy, Québec City
Place Ville Marie, Montréal
Rockhill, Montréal

LA CAISSE'S ACHIEVEMENTS IN QUÉBEC

AN ESSENTIAL FINANCING ROLE IN QUÉBEC

La Caisse plays a key financing role in Québec. Participating in numerous growth projects in the private sector and therefore has concrete impact on Québec economic growth.

In recent years, la Caisse has been very active in the private financing market and is continuing to increase its activities in this sector. Such initiatives offer attractive returns over the long term and above all help strengthen economic activity in Québec, as private businesses fuel economic growth.

La Caisse is a longstanding partner of many Québec companies, both public and private. Over the years, it has contributed to several projects that have enabled these companies to grow in local and international markets.

La Caisse is also a major holder of Québec bonds in the public sector, such as those issued by the Government of Québec, crown corporations, municipalities and para-governmental organizations. In 2016, in an environment where interest rates were at their lowest and bond yields at a much lower level than the other asset classes, la Caisse reduced its exposure to bonds from developed countries as part of its global investment strategy. This resulted notably in a reduction in its Québec bond position.

As at December 31, 2016, la Caisse's total assets in Québec private- and public-sector bonds stood at $30.4 billion, as detailed in Table 30.

TABLE 30

ASSETS IN QUÉBEC – CORPORATE SECURITIES AND BONDS
(as at December 31 – in billions of dollars)

	2016	2015
Private sector: corporate securities	**8.5**	6.5
Québec public sector		
Government of Québec	**16.1**	19.5
Hydro-Québec	**4.5**	4.5
Other crown corporations	**1.1**	1.3
Municipalities and para-governmental corporations	**0.2**	0.9
Subtotal	**21.9**	26.2
Total	**30.4**	32.7

ESPACE CDPQ: AN INVESTMENT AND DEVELOPMENT HUB FOR ENTREPRENEURS

Unique in Québec, Espace CDPQ is a hub for partnership and collaboration, focused on one ambition: to accelerate the growth and globalization of Québec SMEs. Their objective is to pool their networks, expertise and resources to benefit Québec businesses.

Announced by la Caisse in 2015 and inaugurated in 2016 at Place Ville Marie, Espace CDPQ brings together under one roof several key organizations active in the development and financing of SMEs to break down silos and promote collaboration. Its financing component is comprised of multidisciplinary and complementary investment firms, including Fonds Espace CDPQ, a $50-million fund set up by la Caisse. Other partners offer development and training to growing companies.

A FIRST YEAR OF OPERATION

Five partners moved to Espace CDPQ upon its launch: the new Montréal campus of École d'Entrepreneurship de Beauce (EEB), the new intrapreneurial initiative of the Business Families Foundation and investment funds Brightspark Ventures, White Star Capital and OpenText Enterprise Apps Fund (OTEAF). Within just a few months, the new synergy created by the presence of these organizations generated concrete results:

- a co-investment by Brightspark Ventures and Fonds Espace CDPQ to fuel the international growth of Hopper, a mobile app that analyzes and predicts airfares;
- a co-investment by Clearspring fund and la Caisse in Demers Ambulances to strengthen the company's market share in Canada and its international growth;
- the creation of a unique event that brought together the investment funds located at Espace CDPQ and more than 50 new entrepreneurs at WeWork in order to build business relationships and identify tomorrow's leaders;
- the launch by EEB of a program for growing technology companies, developed in collaboration with specialists at Espace CDPQ, including iNovia and Fonds Espace CDPQ.

In addition, two investments were made by Fonds Espace CDPQ, one in Felix & Paul Studios, a firm specializing in cinematic virtual reality, and the other in Netlift, a mobile car-sharing and carpooling app.

Following the work to develop office space at Espace CDPQ, which was underway during the year, the remaining partners are expected to move in by the end of April 2017: QG100 Network, commercialization firm Univalor, private equity association Réseau Capital, and the investment funds Clearspring Capital Partners, iNovia Capital, Anges Québec and Anges Québec Capital, as well as two new investment fund partners, 500 Startups and XPND.

In all, 15 partner tenants – 10 investors and five development and training organizations – will come together at Espace CDPQ. The synergy generated by this community, in addition to driving the growth and globalization of promising Québec companies, will be a source of potential investments for la Caisse.

PARTNERS ESTABLISHED AT ESPACE CDPQ IN 2016

LA CAISSE'S ACHIEVEMENTS IN QUÉBEC

INSPIRE A STRONG ENTREPRENEURIAL CULTURE IN QUÉBEC

To build sustainable growth in the Québec economy, it is essential to empower the next generation of companies, helping them reach their full potential. This is why la Caisse created partnerships aimed at launching concrete initiatives to promote entrepreneurship.

DEVENIR ENTREPRENEUR

Launched in October 2015 by la Caisse, Desjardins Group and National Bank, this entrepreneurship awareness initiative continued its activities in 2016. A communication campaign was deployed: visual advertising in 37 CEGEPs and 12 universities in Québec and regular content posting on social media and the devenirentrepreneur.com website. This web platform, which attracted more than 80 entrepreneurs and 200,000 visitors in one year, won a Boomerang award recognizing the best digital achievements.

ENTREPRENDRE C'EST APPRENDRE

Designed to promote entrepreneurial-oriented educational activities, the "Entreprendre c'est apprendre" toolbox enabled numerous elementary and high school teachers to help students learn through entrepreneurship. More than 46 entrepreneurial projects were carried out in schools across Québec and are posted on entreprendrecestapprendre.com, an offshoot of devenirentrepreneur.com.

In collaboration with OSEntreprendre, the first edition of the Semaine des entrepreneurs à l'école was also held. During the week, 66 entrepreneurs gave 87 talks to more than 3,600 students aged 12 to 17 in five regions of Québec.

INITIATIVES TO STIMULATE ENTREPRENEURSHIP

devenir entrepreneur

entreprendre c'est apprendre

semaine des entrepreneurs à l'école

A LEADER IN QUÉBEC'S FINANCIAL INDUSTRY

Through the very nature of its operations, la Caisse plays a major role in the Québec financial industry. It also facilitates the emergence of new financial leadership by developing a pool of qualified experts.

Over the years, la Caisse has developed partnerships with large universities in Québec to meet the needs of the financial sector. This collaboration involves funding for research chairs and the creation of training programs. In 2016, for example, la Caisse and Université Laval introduced the Académie de la relève entrepreneuriale CDPQ, a one-year training program that focuses on the everyday reality of an entrepreneur. The program provides selected candidates with access to professional tools and a network of key organizations, partners and entrepreneur-advisors to help them develop advanced entrepreneurial skills and achieve their business projects.

The following are more examples of la Caisse's collaboration with the university community:

- CDPQ-HEC Montréal International Growth of SMEs Program;
- The Caisse de dépôt et placement du Québec Research Chair in Portfolio Management at École des sciences de la gestion at Université du Québec à Montréal (ESG UQAM);
- The Caisse de dépôt et placement du Québec Research Chair in Actuarial Management of Asset Risks at Université Laval;
- Study on responsible investment at Université de Sherbrooke;
- Study on responsible investment at Concordia University;
- Sustainable Investment Professional Certification Program at the John Molson School of Business at Concordia University.

COLLABORATION WITH THE FINANCIAL SECTOR

La Caisse plays an active role in Finance Montréal, an organization that aims to strengthen Québec's financial sector. For example, it helped establish the International Pension Conference of Montréal, whose fourth edition was held in 2016. As part of the program of structured, supervised internships for finance students, established in collaboration with Finance Montréal, la Caisse hired 31 interns in 2016, for a total of 104 since the program was created in 2011.

STRENGTHENING THE VITALITY OF SEVERAL SECTORS

In conducting their activities, la Caisse and its subsidiaries use the services of many Québec companies in the financial sector and a variety of other domains. In fact, their operations require more than 2,000 Québec suppliers, including banks and brokers who handle many of the daily banking transactions. In 2016, la Caisse and its subsidiaries spent more than $800 million in Québec.

As stipulated in its Policy on Contracts for the Acquisition or Leasing of Goods and Services, la Caisse favours Québec suppliers, provided they satisfy its cost and quality criteria.

Responsible Investment

RESPONSIBLE INVESTMENT REPORT

The responsible investment policy describes la Caisse's approach, which is focused on the following two areas: integration of ESG (environmental, social and governance) criteria into the investment analysis or review process, and shareholder engagement, which includes voting at shareholder meetings.

This report provides a summary assessment of the activities carried out in 2016. For a detailed description of our approach and policy, please consult the Caisse website.

Highlights

1

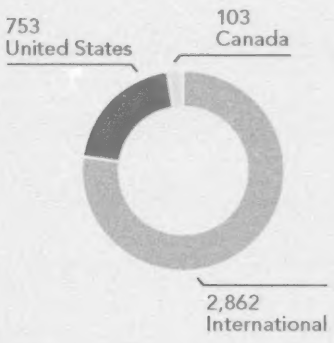
In 2016, a specific review of ESG factors was conducted for 138 companies in the portfolio.

2

La Caisse's shareholder engagement involved 133 companies.

3

As at December 31, 2016, la Caisse had exercised its voting rights at 3,718 shareholder meetings.



INTEGRATION OF ESG CRITERIA

Integrating ESG criteria in the various asset classes is important because la Caisse is a long-term investor. When la Caisse makes an active-management decision, these factors are reviewed as part of a comprehensive analysis of the investment. La Caisse is actively improving its processes and, more generally, promotes responsible investment and the use of ESG criteria in the investment community.

Examples of actions taken by la Caisse in 2016

- Fundamental analyses that draw up ESG profiles were conducted on 46 companies for both public markets and private equity. Fundamental analyses and more summary analyses of ESG criteria have also been performed on 92 companies in the corporate debt portfolio.
- Participated in various conferences and responsible investment groups, allowing la Caisse to work closely with its peers and organizations on specific issues. La Caisse is a member of the following groups: the Canadian Coalition for Good Governance (CCGG), PRI (Principles for Responsible Investment), the Pension Investment Association of Canada (PIAC), the Carbon Disclosure Project, the Coalition for Environmentally Responsible Economies, and the International Corporate Governance Network.

- Participated in an annual conference organized by the PRI Québec network.
- Participated in Québec's FSI (Finance and Sustainability Initiative) – PRI Competition and Scholarship for Best Research on Responsible Investment.

SHAREHOLDER ENGAGEMENT

La Caisse's shareholder engagement takes different forms:

- The exercise of voting rights at shareholder meetings and participation in consultations held by Canadian securities authorities.
- Collaboration with portfolio managers, which led to 69 commitments with 49 companies held in the actively managed portfolio.
- A mandate awarded to a specialized firm to carry out shareholder engagements with growth-market companies whose securities are managed on an indexed basis. This firm secured commitments with 84 companies in 2016.

Shareholder engagement topics

Compensation program, advisory votes and governance

La Caisse believes executive compensation should be aligned with a company's results, so it reviews compensation programs as a function, most notably, of the link between compensation and the company's performance. La Caisse also carefully reviews governance issues so that it can take action when companies fail to adopt best practices, whether such practices involve the composition of the board of directors and its committees, diversity, the annual election of directors, or the share-capital structure.

Examples of actions taken by la Caisse in 2016

- Held meetings with officers and directors to discuss compensation programs, comparisons of such programs with those of peers in the same industry, advisory votes, the granting of special bonuses, the composition of the board of directors, the length of mandates and the composition of advisory committees.
- Participated in meetings organized by the Canadian Coalition for Good Governance along with board members of certain Canadian companies.
- Participated in consultations carried out by compensation experts on the topic of best practices.
- Took part in the work of regulatory authorities on the proxy voting infrastructure.

RESPONSIBLE INVESTMENT REPORT

SHAREHOLDER ENGAGEMENT (CONTINUED)

Shareholder engagement – Environmental and social issues

Environmental and social issues are important because they may have financial consequences for a company and its shareholders and may also affect its reputation. In addition, issues concerning climate change and greenhouse gas emissions are playing an increasingly larger role.

Examples of actions taken by la Caisse in 2016

- Co-signed, with several international peers, a shareholder proposal submitted in three companies (Anglo American, Glencore PLC and Rio Tinto – UK and Australia) requiring better disclosure of several issues beginning in 2017, including management of greenhouse gas emissions and the resilience of their asset portfolios to low-emission scenarios. The three companies agreed to these proposals.
- Supported 45 shareholder proposals on environmental subjects, including 21 reporting on climate change and the related financial risks, nine reporting on and disclosing reductions in greenhouse gas or methane emissions, and 15 on the environment and sustainable development reports.
- Participated in consultations led by the Task Force on Climate-related Financial Disclosures, instituted by the Financial Stability Board.
- Analyzed and integrated a company's carbon emissions, when the data was available, into the ESG profiles for investments in the portfolio.
- Participated in a working group made up of many investors to discuss the methodology used to calculate a portfolio's carbon footprint.
- Updated the list of la Caisse's low-carbon investments on the Low Carbon Investment Registry site, an initiative of the Global Investor Coalition on Climate Change.
- Supported the Carbon Disclosure Project, which sends companies a questionnaire asking them to disclose information on their approach to managing climate change and greenhouse gas emissions.
- Participated in the CDP Water Disclosure Project, an initiative that underscores the importance of water and addresses the issue through discussions with companies.
- Supported the Extractive Industries Transparency Initiative (EITI), an organization that fights corruption by encouraging countries at greater risk to implement measures that ensure transparent disclosure of revenues from natural resources.
- Participated in a committee of the Canadian Coalition for Good Governance that is examining how to include environmental and social issues in addition to governance issues.

Shareholder engagement – Exercising proxy voting rights

La Caisse exercises its voting rights at the shareholder meetings of the companies in its portfolio in accordance with its policy on exercising voting rights. La Caisse's votes are public and may be consulted on its website.

- As at December 31, 2016, la Caisse had exercised its voting rights in 3,718 shareholder meetings, representing 40,077 resolutions. These votes can be broken down as follows: 103 shareholder meetings of Canadian companies, 753 of U.S. companies and 2,862 for companies from outside North America.
- Out of all the votes, 11.1% were against management proposals. The principal subjects concerning positions conflicting with the management of companies were the advisory vote on compensation (e.g. Magna International, Canadian Pacific Railways, Goldman Sachs and Walt Disney) and the election of non-independent directors (e.g. Hershey Corporation and Viacom).
- Furthermore, la Caisse generally supports proposals by shareholders when they are appropriate for the company. These proposals concern, among other things, allowing shareholders to propose candidates for the position of director (e.g. Apple, Netflix and WEC Energy), the company's obligation to disclose information on the reduction of greenhouse gas emissions (e.g. Emerson Electric and Nucor) and the financial risks related to climate change (e.g. Exxon Mobil, AES and Nextera).

SUSTAINABLE DEVELOPMENT REPORT

2016-2018 ACTION PLAN

In 2016, la Caisse published the third edition of its Sustainable Development Action Plan, which comprises 26 actions to be carried out over three years. These actions are intended as responses to five out of the eight major government sustainable development priorities. With this new Action Plan, la Caisse plans to generate positive and sustainable social and environmental impacts.

OBJECTIVE / **Strengthen ecoresponsible practices in public administrations**

ACTIONS

Take ecoresponsible actions related to current operations in the management of material resources

- A selection criterion was added regarding environmental performance when looking for office space. The desired performance level is a LEED® certification or any other, similar environmental certification.

Apply best practices in the management of material resources and waste

- Two objectives were defined to increase the waste diversion rate in Canadian properties managed by Ivanhoé Cambridge: to obtain a diversion rate of 60% or better by 2020 and, for Édifice Jacques-Parizeau, to obtain a diversion rate higher than the average for the properties managed. Ivanhoé Cambridge is on track to attaining these objectives.

Encourage the adoption of ecoresponsible records management practices

- Deployment of the Information Management and Security program, which seeks to implement good practices while mitigating the operational risks inherent in records management.
- Reduction in document storage by 415 boxes.
- Deployment of initiatives to inform employees on records management, including through articles published on the intranet, distribution of a checklist and training on records management given at orientation sessions for new employees.

Foster sustainable mobility among employees

- Dissemination of videos on Caisse employees who use active means of transportation such as biking and walking.

Carry out ecoresponsible construction, renovation and leasehold improvement projects

- Ivanhoé Cambridge encourages ecoresponsible practices in its building management: environmental certifications were renewed in 2016 in 86% of the properties it manages, and 81% had at least one environmental certification.

Improve ecoresponsible management of la Caisse's IT infrastructure

- Integration of five sustainable development indicators into the monitoring of IT infrastructure management.
- All the computer hardware bought in 2016 complied with environmental and energy efficiency standards (Energy Star and EPEAT Gold).

Adopt best practices in the organization of ecoresponsible events at la Caisse

- Training provided to employees on how to organize ecoresponsible events.

OBJECTIVE / **Optimize the generation of different forms of renewable energy for the benefit of Québec society as a whole**

ACTION

Carry out projects that will optimize the generation of different forms of renewable energy

- Carry out a feasibility study on the installation of solar panels on one of the commercial properties managed by Ivanhoé Cambridge.

OBJECTIVE / **Build on the recognition, development and maintenance of skills, particularly the skills of the most vulnerable people**

ACTION

Foster access to work for the most vulnerable people

- Support for several organizations that help the homeless, including the Refuge des jeunes, the Old Brewery Mission, Le Chaînon, Accueil Bonneau, the Maison Marguerite and the Women's Centre of Montréal.

OBJECTIVE / **Continue developing sustainable development knowledge and skills**

ACTION

Generate interest among employees and develop their knowledge on sustainable development

- Articles on different sustainable development topics were published on la Caisse's intranet, including "A Tree for my Neighbourhood" and "J'embarque!", a sustainable mobility campaign based in Québec City.

OBJECTIVE / **Encourage the development of green and responsible business practices and models**

ACTIONS

Encourage Québec companies to develop or continue pursuing an approach to sustainable development

- Sponsorship of SVX/Impact8, a support and acceleration program for social businesses with a high potential, and the hosting of the first Impact8 cohort in the offices of la Caisse.

Help increase the number of businesses that have launched a sustainable development initiative

- Adoption of a lease that integrates ecoresponsible practices for all new lessees in Canadian office buildings managed by Ivanhoé Cambridge.

OBJECTIVE / **Foster investment and financial support for the transition to a green and responsible economy**

ACTION

Promote responsible investment

- Participation by la Caisse in more than five events, including the Colloque québécois de l'investissement responsable, organized by the Réseau PRI Québec, and presentation of a scholarship for the best academic research on responsible investment as part of a competition organized by the Finance and Sustainability Initiative (FSI) and PRI Québec.

SUSTAINABLE DEVELOPMENT REPORT

OBJECTIVE / **Strengthen access to and participation in cultural life as a lever of social, economic and regional development**

ACTIONS

Give visibility to Québec arts and culture by promoting la Caisse's art collection and making it accessible

- Organization of 10 guided tours of the collection for employees and certain external groups.
- Luncheon conference by David Altmejd, Québec sculptor, given to 60-some employees.
- Action plan for the conservation of photographic works in the collection.

Raise awareness of Québec's cultural heritage among national and international partners

- Installation of works by Québec artists in la Caisse's offices in New York, Singapore and Sydney.

Acknowledge the role played by arts and culture as a vehicle of democracy

- La Caisse's artwork committee met three times in 2016.

Improve the cultural quality of people's lives by judiciously showcasing and protecting Québec's cultural heritage, and through a significant presence of distinctive public art, architecture, design and landscapes.

- Ivanhoé Cambridge partnered with Art Souterrain, the Montréal contemporary art festival, which showcases contemporary artists and their work in public spaces in Montréal's underground passages. Ivanhoé Cambridge developed an interactive itinerary of over 20 works of art.
- Ivanhoé Cambridge partnered with the McCord Museum to showcase architectural heritage by participating in the museum's "MTL Urban Museum" project. A mobile app was developed to show the history and evolution of Montréal's architectural heritage.
- Ivanhoé Cambridge partnered with the Pointe-à-Callières museum to help develop the Montréal Museum of Archeology and History.
- Inauguration of the Au Sommet Place Ville Marie observation deck, in June 2016.
- Illumination of Place Ville Marie every evening since December 2016 as part of the celebrations surrounding Montréal's 375th anniversary.

OBJECTIVE / **Strengthen the use of sustainable development principles by government departments and organizations**

ACTIONS

Improve the integration of sustainable development principles in la Caisse's activities

- Garth Lentz, photographer, presented an exhibition of his photographs on the impacts of certain activities on the environment to a select group of employees.

Develop the next generation of business leaders by fostering access to knowledge

- 31 intern analysts were hired in 2016 and 46 students were hired during the summer.
- Activities were organized to enhance la Caisse's internship program: five presentations in universities and the creation of a network of promising candidates on LinkedIn.

Promote the visibility and representation of women in all of la Caisse's activities

- Training was given in several units of la Caisse on biases during the hiring process.
- Six Caisse employees and six Ivanhoé Cambridge employees participated in L'effet A's Défi 100 jours pilot project.
- La Caisse's partnership with Women in Capital Markets led to the registration of 20 Caisse women employees, who received greater visibility in international capital markets.

OBJECTIVE / **Conserve and promote biodiversity, ecosystems and ecological services by improving society's actions and practices**

ACTION

Sustainably restore, adapt and promote ecosystems and foster their diversity

- A team of Ivanhoé Cambridge employees participated in a greening project on Mount Royal organized by Les amis de la montagne.

OBJECTIVE / **Build on and enhance the activities of community organizations and social economy businesses that contribute to inclusion and to reducing inequality**

ACTION

Promote the Initiative Collectivité, which fosters and recognizes employees' involvement in the community

- 34 employees involved in not-for-profit organizations received support from la Caisse. This took the form of donations to their organizations.
- As part of a pilot project, 8 corporate volunteer activities were organized involving close to 80 employees. The organizations supported by Centraide received 320 hours of volunteer services provided by Caisse employees.

OBJECTIVE / **Cooperate nationally and internationally in sustainable development initiatives, in particularly in the Francophonie**

ACTIONS

Participate in collective responsible investment initiatives with other investors or groups in the financial community

- La Caisse participated in 15 activities related to responsible investment issues, including the signing of a statement on integrating ESG into credit assessments.
- Continuous monitoring of initiatives or consultations organized by several organizations, including the PRI, PRI Québec, the Financial Stability Board, the OECD, the Coalition for Environmentally Responsible Economies and the Securities and Exchange Commission.

Participate in group initiatives with other industry stakeholders and take part in various sustainable development affiliations

- Participation by Ivanhoé Cambridge along with various other organizations including the Canada Green Building Council and BOMA Québec.
- Participation by Ivanhoé Cambridge representatives on the sustainable development committees of organizations such as the Real Property Association of Canada, the International Council of Shopping Centers, the Conseil patronal de l'environnement du Québec, the Canada Green Building Council and BOMA Québec.

COMPLIANCE

The compliance activities of la Caisse include most notably ensuring adherence to the depositors' investment policies and the portfolios' investment policies, as well as to the Code of Ethics and Professional Conduct.

Highlights

1

A review of the compliance monitoring process was carried out following the implementation of a new fixed-income portfolio offering and dynamic currency management.

2

Various activities continued to raise employee awareness of the Code of Ethics and Professional Conduct.

3

The system for pre-approval of personal transactions was also adapted to provide access by employees in the institution's international offices.

INVESTMENT POLICIES

Programs are in place to certify compliance with depositors' investment policies and the portfolios' investment policies. Certificates of compliance with these policies were issued to depositors twice in 2016, as of June 30 and December 31. In addition, given the implementation of a new fixed-income portfolio offering and dynamic currency management on January 1, 2017, work was carried out to ensure that the relevant information would be available in the systems to ensure compliance in the specialized portfolios and management mandates.

CODE OF ETHICS AND PROFESSIONAL CONDUCT

Compliance with the Code of Ethics and Professional Conduct for Officers and Employees is essential. At the beginning of each year, all employees must complete declarations on compliance with the Code and the holdings in their personal portfolios. They are also obliged to report any situation where they have reason to believe that there has been a breach of the Code or any Caisse policy. In 2016, la Caisse carried out several activities to make employees aware of various aspects of the Code, and gave specific training on preventing and detecting fraud and corruption. All new employees must take this training in addition to their training on the Code. Furthermore, articles on ethics were published in the internal employee newsletter throughout the year to remind them of appropriate behaviour to adopt in situations involving ethics and professional conduct. Lastly, the system used to pre-approve personal transactions was adjusted and deployed for use by employees in the institution's international offices.

The Code of Ethics and Professional Conduct for Officers and Employees is available on the Caisse website (www.cdpq.com), under the Governance tab.

ACCESS TO INFORMATION

La Caisse processes requests for access to documents in accordance with the Act respecting access to documents held by public bodies and the protection of personal information (the Access Act). In 2016, la Caisse processed 40 requests for document access, of which 26 were for la Caisse and 14 were for CDPQ Infra. All of the requests were handled within the legally prescribed time limit. Of these 40 requests, 25 were accepted, 11 were accepted in part, 1 was referred to another entity and 3 were declined. The requests received concerned, in particular, amounts spent on donations and sponsorships, contracts with IT consultants and external resources, documents on certain specific investments, studies and documents concerning the Réseau électrique métropolitain (REM), and several other subjects of an administrative or budgetary nature. No request was subject to an application for review by the Commission d'accès à l'information. Responses to requests for access are available on the Caisse website.

Lastly, in accordance with the Regulation respecting the distribution of information and the protection of personal information, la Caisse publicly posts on its website the specific information covered by this regulation: leases, training contracts, advertising and promotion contracts, mobile telecommunications contracts, training expenses, travel expenses (total), and the CEO's travel expenses, official expenses and executive vehicle expenses.

LANGUAGE POLICY

La Caisse complies with the requirements of the charter of the French language and its own language policy, which stipulates French as the daily language of work for all employees in its offices in Québec. La Caisse considers the quality and use of French in its spoken and written communications to be of paramount importance.

To this end, la Caisse provides its employees with various useful tools that contribute to correct French usage, as well as a number of reference works, including a lexicon that it compiled to define terms specific to its investment activities.

In 2016, the internal employee newsletter regularly published articles on the proper use of expressions and idioms. The articles also encouraged employees to use the tools and references available on the website of the Office québécois de la langue française, as well as the other language tools available to them.

In 2016, la Caisse again took part in the Francofête festivities, organized by the Office québécois de la langue française, from March 12 to 20. The event featured initiatives such as a quiz and articles on the quality and use of French. In addition, the third annual edition of the Dictée de la Caisse was held in November 2016 as part of the initiatives to make employees more aware of the quality of French in the workplace.

The language committee met twice in 2016. The committee is made up of key persons from various units of the organization.

COMPLAINT MANAGEMENT

La Caisse has designated Me Ginette Depelteau, Senior Vice-President, Compliance and Responsible Investment, to receive complaints and analyze them with all due attention. Complaints may be addressed to her by phone (514 847-5901), fax (514 281-9334) or email (gestiondesplaintes@cdpq.com).

Reports of the Board of Directors and Board Committees

BOARD OF DIRECTORS' REPORT

Highlights

1

Reviewed and approved the 2017-2020 strategic priorities for the investment groups and the administrative groups at la Caisse.

2

Approved investment proposals under the Board's authority, paying attention most notably to the impact of each one on the level and concentration of risk of the specialized portfolio in question and of la Caisse's overall portfolio.

THE BOARD OF DIRECTORS

MANDATE

The mandate of the Board of Directors includes ensuring that la Caisse is managed in compliance with the provisions of its incorporating Act and regulations and that it takes the necessary steps to attain the objectives stated in its mission.

For a full description of the mandate of the Board of Directors, consult the Governance section of the Caisse website (www.cdpq.com).

COMPOSITION

As at December 31, 2016, the Board consisted of 14 members out of a maximum of 15. In 2016, the Government of Québec, after having consulted with the Board, appointed two new members to the Board: Michel Després, President and Chief Executive Officer of Retraite Québec, as a non-independent member, and Wendy Murdock, Corporate Director, as an independent member. The government also renewed the mandate of Jean La Couture as an independent member and, in early 2017, renewed the mandate of three independent directors: Elisabetta Bigsby, Gilles Godbout and François Joly. It also appointed Maryse Bertrand, Corporate Director, as an independent member.

DIRECTOR COMPENSATION

The compensation of la Caisse's directors, other than the Chair and the President and Chief Executive Officer, is determined by an order-in-council of the Government of Québec. Their compensation for 2016 is provided in Table 32 on page 85. The directors are also entitled to be reimbursed for their travel and per diem expenses.

COMPENSATION OF THE CHAIR OF THE BOARD

The annual compensation of the Chair of the Board is set at $195,000 by an order-in-council of the Government of Québec. The Chair is also entitled to be reimbursed for representation expenses related to the duties of his position, to a maximum of $15,000 a year.

TABLE 31

DIRECTOR ATTENDANCE AT BOARD AND COMMITTEE MEETINGS IN 2016[1]

Directors	Board of Directors		Audit Committee	Investment and Risk Management Committee	Human Resources Committee		Governance and Ethics Committee
	6 reg.	2 spec.	6 reg.	6 reg.	7 reg.	1 spec.	5 reg.
Elisabetta Bigsby	6	1	–	2/2	7	1	–
Bertrand Cesvet	6	1	–	–	3/4	1	–
Patricia Curadeau-Grou	6	2	–	6	–	–	–
Michèle Desjardins	1/1	–	–	–	2/2	–	0/1
Michel Després	5/5	2	–	–	–	–	–
Rita Dionne-Marsolais	6	2	6	–	–	–	4
Gilles Godbout	6	2	5	6	–	–	–
Norman Johnston	1/1	–	–	–	–	–	–
François Joly	6	2	6	6	3/3	–	–
Jean La Couture	6	2	–	6	–	–	–
Diane Lemieux	6	2	–	–	–	–	–
Wendy Murdock	4/5	2	–	3/4	–	–	–
François R. Roy	6	2	6	2/2	–	–	3/3
Michael Sabia	6	2	–	–	–	–	–
Ouma Sananikone	5	2	–	–	6	1	5
Robert Tessier	6	2	–	–	7	1	5

1. Directors justify their absences from regular meetings of a Committee or the Board to la Caisse's Secretariat. During 2016, directors were not able to attend certain meetings, due mainly to health reasons or to obligations related to family or work commitments.

TABLE 32

COMPENSATION PAID TO INDEPENDENT DIRECTORS UNDER ORDER-IN-COUNCIL[1]

(in dollars)

Directors	Annual compensation	Compensation as Committee Chair	Attendance fees	Total compensation
Elisabetta Bigsby	18,291	5,716	15,426	39,433
Bertrand Cesvet	18,291	–	9,427	27,718
Patricia Curadeau-Grou	18,291	–	11,141	29,432
Michèle Desjardins	4,573	–	2,571	7,144
Rita Dionne-Marsolais	18,291	–	11,976	30,267
Gilles Godbout	18,291	–	8,505	26,796
François Joly[2]	18,291	5,716	25,710	49,717
Jean La Couture	18,291	5,716	12,855	36,862
François R. Roy	18,291	–	16,283	34,574
Wendy Murdock	13,970	–	5,999	19,969
Ouma Sananikone	18,291	5,716	18,854	42,861
Total				**344,773**

1. In accordance with the terms of the Order-in-Council:
   a. The attendance fee for each special or short Board or Committee meeting, held by conference call, is half of the attendance fee allowed for a regular meeting.
   b. Members who are retired from the public sector receive total reduced compensation.
2. This director received attendance fees for attending Audit Committee meetings of la Caisse's real estate subsidiaries.

BOARD OF DIRECTORS' REPORT

ACTIVITY REPORT

Strategic directions

In 2016, la Caisse's strategic directions were in line with the ones previously adopted by the Board. These orientations are intended to generate stable returns, while remaining focused, among other things, on increased absolute-return management, investing in assets tied to the real economy, the impact in Québec, and la Caisse's increased footprint in global markets, particularly in growth markets. To achieve these objectives, it was established that la Caisse must notably continue to be ambitious and selective in its deployment of capital in less-liquid assets and adapt the Fixed Income strategy, while maintaining a reasonable level of risk-taking.

Accordingly, the Board:

- regularly monitored the results and risks associated with the strategies, at each step in their deployment;
- alongside senior management, reviewed various economic and financial scenarios that could have an impact on how la Caisse's strategy evolves;
- reviewed and approved, in line with the previous plan, the strategic priorities for 2017-2020 of each investment group, including the real estate subsidiaries and the CDPQ Infra subsidiary, and of each administrative group;
- monitored the deployment of the Fixed Income unit's new investment strategy.

The Board also adopted la Caisse's business plan and annual budget and received regular progress reports from senior management.

Financial results, internal controls and management systems

With assistance from the Audit Committee, the Board fulfilled its responsibilities with respect to financial results and internal controls, notably by:

- reviewing the quarterly financial statements and approving the consolidated financial statements as at June 30 and December 31;
- evaluating the integrity of all controls applied to data used to prepare the financial statements and related notes;
- reviewing the returns of the investment units and approving the news releases announcing the annual financial results and the semi-annual update;
- reviewing and approving la Caisse's Annual Report;
- approving the revision of the financial disclosure policy;
- reviewing and approving delegations of authority.

See the Report of the Audit Committee on page 88 for more information on the responsibilities discharged by the Committee and the Board.

Investment and risk management

Assisted by the Investment and Risk Management Committee, the Board ensured that an effective and rigorous risk management framework and the related processes were applied throughout the year. As such, the Board:

- approved, on the Committee's recommendation, investment proposals under its authority, taking into account, among other things, the impact of each one on the level and concentration of risk of the specialized portfolio in question and of la Caisse's overall portfolio;
- approved the investment policies of the Rates and the Credit portfolios and amendments to the investment policies of certain other specialized portfolios;
- approved the policy on dynamic currency management;
- approved limits on market risk and the objectives for la Caisse's overall portfolio and for each of the specialized portfolios and major mandates, as well as the limits placed on the use of derivative financial instruments and the limits on overall concentration at la Caisse;
- approved liquidity risk oversight and ensured that la Caisse's overall strategy for managing this risk was followed;
- reviewed all information management security processes, including matters of cybersecurity.

For all the activities of the Board and the Investment and Risk Management Committee, see the Report of the Investment and Risk Management Committee on page 108.

Corporate governance

The Board met in the absence of members of senior management and held discussions with the President and Chief Executive Officer in the absence of other members of senior management. It also received an activity report from each committee at each meeting, so that it could review and express an opinion on their recommendations. In addition, on the recommendation of the Governance and Ethics Committee, the Board:

- evaluated its own operations and that of its committees as well as the performance of each chair;
- reviewed the composition of its committees;
- approved the expertise and experience profile of each of its independent members;
- reviewed the donations and sponsorships policy;
- approved the amendments in la Caisse's Code of Ethics and Professional Conduct for Officers and Employees;
- approved ethical measures for clearly and rigorously managing the process used to select companies and consortiums involved in the proposals for the REM project – since la Caisse is a shareholder in many of these companies –, including the establishment of an independent committee on the probity, integrity and implementation of an ethical wall between CDPQ Infra and la Caisse in order to guarantee the integrity of the decisions made by CDPQ Infra and avoid situations where investment teams at la Caisse could receive or be privy to confidential information from CDPQ Infra.

See the Report of the Governance and Ethics Committee on page 91 for more information on the responsibilities discharged by the Committee and the Board regarding governance and ethics.

Supervision of senior management and human resources management

With assistance from the Human Resources Committee, the Board approved the President and Chief Executive Officer's detailed objectives for 2016. The Board also reviewed his performance based on objectives set at the beginning of the year.

Furthermore, the Board reviewed the President and Chief Executive Officer's performance evaluations of senior management and reviewed the succession plans for them and for the President and Chief Executive Officer. It approved the salary conditions and the level of incentive compensation to be paid to senior management and, more generally, to all employees.

On the Committee's recommendation, the Board approved the appointment of Jean Michel as Executive Vice-President, Depositors and Total Portfolio and the appointment of Macky Tall as Executive Vice-President, Infrastructure and President and Chief Executive Officer of CDPQ Infra. It also approved the transfer of the Private Equity outside Québec group under the leadership of the Executive Vice-President and Chief Investment Officer. Lastly, at the beginning of 2017, the Board approved the appointment of M[e] Kim Thomassin to the position of Executive Vice-President, Legal Affairs and Secretariat.

The Board reviewed the results of a survey on employee engagement at la Caisse. The survey measured the organizational climate and the critical factors driving engagement.

See the Report of the Human Resources Committee on page 93 for more information on the responsibilities discharged by the Committee and the Board.

REPORT OF THE AUDIT COMMITTEE

Highlights

1

Reviewed and monitored preparation of the financial statements.

2

Revised the financial disclosure policy.

3

Monitored and analyzed the effects of all activities to ensure optimal use of resources.

THE AUDIT COMMITTEE

MANDATE

The Audit Committee sees that the financial statements accurately reflect the institution's financial position. It also ensures, among other things, that la Caisse has adequate and effective internal control mechanisms and a risk management process.

For a full description of the Audit Committee's mandate, consult the Governance section of the Caisse website (www.cdpq.com).

COMPOSITION (as at December 31, 2016)

The composition of the Committee was reviewed in 2016.

The Committee consisted of four independent members, including professionals with accounting or financial expertise as well as the experience and knowledge required to read and understand financial statements and to fulfill their roles properly.

- Chair: François Joly (guest member at meetings of the Investment and Risk Management Committee)
- Members: Rita Dionne-Marsolais, Gilles Godbout and François R. Roy

The Chair of the Board attends the Committee meetings.

ACTIVITY REPORT

Number of meetings in 2016: 6

Financial reporting

In 2016, the Committee fulfilled its financial reporting responsibilities, which included the following:

- Reviewed various aspects of the financial statements with the Finance group and the co-auditors: the Auditor General of Québec and Ernst & Young, including:
  - the process used to prepare financial statements;
  - the valuation of investments;
  - treasury items, including liquidity, leverage and financing;
  - the confirmation that an audit of returns had been performed by an external firm to ensure that their calculation and presentation complies with industry standards.

- Reviewed the report on the financial certification process that enables the President and Chief Executive Officer and the Chief Financial Officer to certify publicly that the disclosure controls and procedures and the internal financial reporting controls are adequate and effective.
- Recommended that the Board adopt the financial statements as at June 30 and December 31.
- Reviewed preparatory work on the Annual Report and the news releases announcing la Caisse's financial results.
- Arranged for the Chair of the Audit Committee to attend meetings of the real estate subsidiaries' audit committees and reviewed the committees' annual activity reports.
- Discussed the audit report with the co-auditors following their year-end audit.
- Reviewed the quarterly financial statements, budget monitoring reports, operating expenses and year-end budget estimates.
- Discussed with the co-auditors their plan for auditing la Caisse's financial statements.
- Monitored the External Auditor Independence Policy and approved Ernst & Young's audit fees.
- Recommended the appointment of Ernst & Young as external auditor of the books and accounts of la Caisse for the fiscal years ending December 31, 2017 and 2018.
- Held regular discussions with the Executive Vice-President and Chief Financial Officer without the presence of other members of senior management.
- Met regularly with the co-auditors to discuss various aspects of their mandate without the presence of senior management.
- Ratified the selection of an external auditor for one of la Caisse's real estate subsidiaries.

Internal audit

In 2016, the Committee also carried out the following activities with the Internal Audit group:

- Reviewed and approved the 2016-2018 Internal Audit Plan.
- Reviewed and approved the Internal Audit Charter.
- Reviewed Internal Audit's progress reports prepared under the Internal Audit Plan to address such matters as internal control mechanisms, risk management processes and optimal use of resources.
- Monitored the implementation of Internal Audit's recommendations by Caisse senior management.
- Reviewed status reports on internal audits at the real estate subsidiaries.
- Reviewed the results of the institution's continuous audit program.
- Ensured that the Internal Audit team was able to act independently from Caisse senior management.
- Discussed with Internal Audit its self-assessment to address such matters as the implementation of the tools and control mechanisms required to comply with standards prescribed by the Institute of Internal Auditors.
- Held periodic discussions with the Vice-President, Internal Audit, without the presence of senior management.

REPORT OF THE AUDIT COMMITTEE

Internal controls and plan for the optimal use of resources

The committee reviewed many aspects of internal controls and optimal use of resources in 2016. It carried out the following activities:

- Reviewed the plan to ensure optimal use of resources and monitored and analyzed the effects of all the activities implemented under the plan.
- Reviewed the results from work to assess the design and effectiveness of internal financial reporting controls and disclosure controls and procedures, including those of the real estate subsidiaries.
- Reviewed amendments to the financial disclosure policy and recommended them to the Board.
- Monitored technological projects to update financial reporting systems.
- Monitored international tax management activities.
- Reviewed the results of the evaluation carried out by members, addressing the effectiveness of the Committee operations.
- Reviewed and recommended to the Board changes in delegations of authority.

Risk management

The Investment and Risk Management Committee helped the Audit Committee fulfill its duty to implement a risk management process. The Committee therefore carried out the following activities to monitor all investment and risk management work:

- Reviewed Internal Audit group's report on the effectiveness and efficiency of risk governance.
- Discussed with the officer in charge of Legal Affairs and Compliance:
  - reports on compliance with the Act respecting the Caisse, depositors' investment policies and the investment policies of specialized portfolios;
  - reports on legal proceedings involving la Caisse or its real estate subsidiaries.
- Received copies of the Investment and Risk Management Committee's minutes of meetings.
- Arranged for the Chair of the Committee to attend meetings of the Investment and Risk Management Committee.

USE OF EXTERNAL EXPERTS

The Audit Committee did not use the services of external experts in 2016. It nevertheless endorsed senior management's use of external firms for an independent review of the fair value of certain investments.

REPORT OF THE GOVERNANCE AND ETHICS COMMITTEE

Highlights

1

Reviewed the Code of Ethics and Professional Conduct for Officers and Employees.

2

Reviewed and recommended ethical measures to be taken during transactions.

GOVERNANCE AND ETHICS COMMITTEE

MANDATE

The Committee ensures that la Caisse adheres to the highest standards of governance and ethics. For a full description of the Governance and Ethics Committee's mandate, consult the Governance section of the Caisse website (www.cdpq.com).

COMPOSITION (as at December 31, 2016)

The composition of the Committee was reviewed in 2016.

Four independent members:

- Chair: Ouma Sananikone
- Members: Rita Dionne-Marsolais, François R. Roy and Robert Tessier

ACTIVITY REPORT

Number of meetings in 2016: 5

Composition of the Board and its committees

- Reviewed the composition of the Board and recommended the renewal of the mandate of four independent members as well as the appointment of two independent members and a non-independent member.
- Reviewed the composition of its committees and made a recommendation to the Board.

Activities of the Board and its committees

- Reviewed the performance evaluation process used for the Board, its Chair, the committees and their chairs, including directors' self-assessments; analyzed the results and made recommendations to improve certain processes, as necessary.
- Reviewed an orientation program for new directors designed to ensure the harmonious and swift integration of new members onto the Board of Directors.
- Reviewed, in cooperation with the Human Resources Committee, the skills and experience profiles of independent directors and made recommendations to the Board.
- Obtained assurance that the Board had all the necessary information and all the time required to analyze issues affecting la Caisse.

REPORT OF THE GOVERNANCE AND ETHICS COMMITTEE

- Reviewed a program involving presentations and discussions outside the formal framework of Board meetings, to allow directors to discuss matters among themselves and with senior management.
- Verified throughout the year that discussions were being held in each committee and by the Board without the presence of senior management.

Rules of ethics and professional conduct

Regarding rules of ethics and professional conduct, the Committee's activities included the following:

- Reviewed the Code of Ethics and Professional Conduct applicable to officers and employees of la Caisse and reviewed the report on how the rules on ethics and professional conduct were being applied at la Caisse.
- Reviewed the rules of ethics applied by la Caisse to manage legal constraints related to its shareholding in public companies.
- Reviewed ethical measures for la Caisse and recommended them to the Board to ensure that, as a shareholder of companies involved in calls for proposals for the REM project, the institution will avoid all potential conflicts of interest in the process led by its subsidiary, CDPQ Infra, and its investment teams will not receive from CDPQ Infra confidential information on companies involved in the project's calls for proposals.
- Reviewed the rules on declarations of interests, verified that the declarations complied with the provisions in effect, and transmitted the declarations to the authorities designated under the Act respecting the Caisse dépôt et placement du Québec.
- Reviewed reports on transactions involving securities of companies that have ties with Caisse directors.

Caisse

- Revised, and recommended to the Board, amendments to la Caisse's donations and sponsorships policy.
- Reviewed the report on donations and sponsorships provided by la Caisse during the year and reviewed the annual budget for such activities.
- Reviewed the report on the institution's exercise of its voting rights in companies in which it is a shareholder.
- Reviewed the process for appointing members to the boards of directors of certain private companies in which la Caisse invests.

USE OF EXTERNAL EXPERTS

The Governance and Ethics Committee did not use the services of external experts in 2016.

REPORT OF THE HUMAN RESOURCES COMMITTEE

Highlights

1

Approved three appointments: Executive Vice-President, Infrastructure and President and Chief Executive Officer, CDPQ Infra, Executive Vice-President, Depositors and Total Portfolio, and Executive Vice-President, Legal Affairs and Secretariat.

2

Conducted an annual review of the positioning of total compensation and different compensation parameters.

3

Approved an action plan to develop high-potential employees.

HUMAN RESOURCES COMMITTEE

MANDATE

The mandate of the Human Resources Committee is to review the orientations and strategies used by la Caisse to manage its human resources, including performance evaluation, succession planning and executive compensation, as well as its general human resources practices. For a full description of the mandate of the Human Resources Committee, consult the Governance section of the Caisse website (www.cdpq.com).

COMPOSITION (as at December 31, 2016)

The Committee is composed of four independent members:

- Chair: Elisabetta Bigsby
- Members: Bertrand Cesvet, Ouma Sananikone and Robert Tessier

ACTIVITY REPORT

Number of meetings in 2016: 8

President and Chief Executive Officer

The Committee reviewed Mr. Sabia's objectives for 2016 as President and Chief Executive Officer and recommended that the Board of Directors approve them. Furthermore, the Committee reviewed the performance evaluation and total compensation conditions for the President and Chief Executive Officer and recommended them to the Board of Directors for approval.

Senior executives

The Committee reviewed and recommended the following items to the Board of Directors for approval:

- Performance evaluations of senior executives and determination of their total compensation.
- Succession plan for senior executives and for the position of President and Chief Executive Officer.
- Appointment of Jean Michel to the position of Executive Vice-President, Depositors and Total Portfolio, of Macky Tall to the position of Executive Vice-President, Infrastructure and President and Chief Executive Officer of CDPQ Infra, and transferring the management of investments in private equity outside Québec to the Executive Vice-President and Chief Investment Officer.
- At the beginning of 2017, appointment of M[e] Kim Thomassin to the position of Executive Vice-President, Legal Affairs and Secretariat.

REPORT OF THE HUMAN RESOURCES COMMITTEE

Key strategies and policies for integrated talent management

During 2016, the Committee discussed several key strategies and policies for integrated talent management. To that end, among other things, the Committee:

- reviewed the different management indicators, including those related to performance management, gender diversity at la Caisse as well as professional development planning for high-potential employees;
- reviewed the results of the engagement survey conducted in 2016 and discussed approaches concerning employee engagement;
- discussed the positioning of total compensation with respect to the performance culture, the business strategy, target returns and benchmark indexes and talent management strategy at la Caisse, as well as in relation to the reference markets, and approved the total compensation structure of the subsidiaries.

Committee operations

The Committee reviewed the results of the evaluation carried out by members, addressing the effectiveness of the Committee operations.

Independent Board members

In collaboration with the Governance and Ethics Committee, the Committee reviewed the expertise and experience profiles of the independent members of the Board.

Use of external experts

In implementing the incentive compensation program, the Committee and the Board used the services of Hugessen Consulting, an independent consulting firm recognized for its expertise in the compensation of pension fund personnel. The Committee takes Hugessen Consulting's recommendations into account but makes its own decisions, which may be based on information other than the firm's recommendations.

COMPENSATION POLICY

Committee's work on compensation

During 2016, the Committee, with advice from Hugessen Consulting, ensured that the compensation policy adopted in 2010 met its strategic objectives of paying for long-term performance, offering competitive compensation and linking the interests of officers to those of depositors. The Committee reviewed how la Caisse's compensation policy was applied; it analyzed the proposed performance incentive compensation and proposals for implementation of co-investment and ensured that the proposals were aligned with the compensation policy and market practices.

Accordingly, the Committee notably analyzed the amount of performance incentive compensation to be paid under the incentive compensation program and recommended it to the Board for approval.

Moreover, the Committee received an update on compensation market trends with respect to salary reviews. It also discussed the salary conditions of la Caisse's employees for 2017 and recommended them to the Board for approval.

Framework

La Caisse's compensation policy was adopted in accordance with Schedule A of the regulation governing the internal management of la Caisse (the Internal Bylaw). This schedule was revised by government order-in-council in 1996 and:

- defines the maximum levels of employee total compensation and the reference markets;
- states that the data reflecting the reference-market profile must be compiled by a recognized independent firm through an annual survey and must be administered and analyzed according to a methodology and rules generally accepted in the field;
- stipulates that la Caisse's payroll must not exceed 100% of the salary-scale midpoint.

Reference markets and compensation levels[1]

For the position of President and Chief Executive Officer, the reference market consists of a sample of the seven largest Canadian pension funds, as listed in Table 37 on page 101. For this position, total compensation must be between the median and the third quartile (75th percentile) of the reference market, depending on whether la Caisse's performance has been average or superior. One fund, BIMCOR, was withdrawn from the list in 2016, because the new roles and responsibilities of the President and the complexity of investments at BIMCOR have rendered the position an inappropriate comparable for the position of President and Chief Executive Officer of la Caisse.

For investment-related positions, the Canadian institutional investment market serves as the reference. A representative sample must include institutions, insurance companies, trust companies, pension funds, investment advisors, brokerage firms and fund managers or their counterparts in similar industries. The current sample comprises the 38 organizations listed in Table 39 on page 102. For these positions, total compensation must fall below the upper decile (90th percentile) of the reference market. For the executive vice-presidents in investment roles, a reduced sample of that described above is used. It groups together 15 firms whose assets under management are greater than $20 billion. The list is provided in Table 38 on page 101.

For non-investment positions, the Québec market serves as the reference, and must include notably public-sector jobs. It therefore contains a representative sample of large public- and private-sector Québec firms and financial-sector companies. The current sample comprises the 53 organizations listed in Table 40 on page 102. For these positions, total compensation must be within the third quartile (75th percentile) of the reference market.

In 2016, la Caisse retained the services of Willis Towers Watson for benchmarking of its reference markets. Several criteria are used to select companies in the reference markets, in particular: size, industry sector, as well as companies that recruit talent with profiles similar to those sought after by la Caisse, that offer innovative and diversified investment products and types, that are recognized for having best practices in human resources, whose culture is aligned with performance and that contributes to Willis Towers Watson's databank.

Strategic objectives of the compensation policy

La Caisse must rely on highly skilled employees to fulfill its mission, which is to receive moneys on deposit as provided by law and manage them with a view to achieving an optimal return on capital within the framework of depositors' investment policies, while at the same time contributing to Québec's economic development.

1. For compensation purposes, the first quartile ranges from the 1st to the 25th percentile, the second quartile from the 26th to the 50th percentile, the third quartile from the 51st to the 75th percentile and the fourth quartile from the 76th to the 100th quartile.

REPORT OF THE HUMAN RESOURCES COMMITTEE

The compensation policy therefore has the following three objectives:

1. **Pay for performance:** incentive compensation aligned with the returns delivered to depositors. This goal has four key components:
   - Long-term focus: to compensate consistent performance over several years.
   - Risk-return balance: to encourage measured risk-taking conducive to sustainable, long-term returns for depositors, while taking into account their risk tolerance.
   - Overall evaluation: to strike a balance between individual contribution, portfolio performance or achievement of business plans, and Caisse performance.
   - Emphasis on la Caisse's overall perspective: to place greater emphasis on employees' contributions to la Caisse's strategic priorities and overall performance, with a greater weighting on leadership and desired behaviours.
2. **Offer competitive compensation:** to attract, motivate and retain employees with experience and expertise that allow la Caisse to achieve its strategic objectives, within the guidelines in the Internal Bylaw, as described above.
3. **Link the interests of officers and depositors:** to ensure that their individual and team efforts are conducive to la Caisse's long-term success.

La Caisse's incentive compensation policy complies with the Principles for Sound Compensation Practices issued by the Financial Stability Forum (FSF) and endorsed by the G20 nations: effective compensation governance; alignment of compensation with long-term, measured risk-taking; and regular review of compensation practices.

Components of total compensation

La Caisse's employees receive total compensation based on four components:

1. Base salary
2. Incentive compensation
3. Pension plan
4. Benefits

Base salary

Under the Internal Bylaw, the average for all base salaries must not exceed the salary-scale midpoint. Within these parameters, annual base salaries are set according to the salary conditions prevailing on the reference markets.

Each year, the Human Resources Committee submits the payroll budget to the Board for approval.

FIGURE 33

PERFORMANCE INCENTIVE COMPONENTS

BASED ON ACHIEVEMENT OF INDIVIDUAL OBJECTIVES	→	Individual contribution
BASED ON ACHIEVEMENT OF BUSINESS OBJECTIVES OR RETURNS ON THE SPECIALIZED PORTFOLIOS OF EACH UNIT	→	Portfolio return or business plan achievement
BASED ON ACHIEVEMENT OF LA CAISSE'S TARGET RETURNS	→	Caisse overall return

For 2016, the Board of Directors approved the following recommendations made by la Caisse's senior management:

- maintain 2016 salary scales close to the median of the reference markets, as measured by recognized external firms;
- grant a merit increase budget, which is at the median of the market increase forecasts.

Incentive compensation

In the investment industry, incentive compensation is an essential part of the total compensation package for employees working in the sector because it aligns financial incentives with clients' performance objectives.

Incentive compensation at la Caisse serves to recognize performance, attainment of objectives and contribution to the achievement of strategic orientations. Incentive compensation is an important part of total compensation, so it directly influences the total compensation level and its position relative to the reference market.

As of 2016, performance is measured over a period of five years. This five-year horizon reinforces a sustained performance and is consistent with the long-term investment strategy.

This incentive compensation program, introduced in 2010, recognizes consistent performance with incentive compensation and requires employees concerned to defer a portion of this incentive compensation into a co-investment account over a three-year period (see page 98). This mechanism continues to link the interests of officers to those of depositors by varying these amounts according to the absolute return generated for depositors.

Components of performance incentive compensation

Performance incentive compensation is never guaranteed; it depends on evaluations of performance criteria as established under the incentive compensation program. Accordingly, employees receive performance incentive compensation based on three components outlined in Figure 33 (see page 96).

Regarding the second component, namely the return on the specialized portfolios, the objective of all the portfolios is to outperform their benchmark indexes. The three less-liquid portfolios, namely Real Estate, Infrastructure and Private Equity, as well as the Public Equity portfolio, also have an absolute-return target.

Results since 2012

Since 2012, la Caisse has had many accomplishments, which have been detailed in previous sections of this report. The Human Resources Committee wishes to highlight some of these achievements, specifically:

- Over the past five years, la Caisse has made investments and commitments in Québec totalling $13.7 billion, bringing total assets to $58.8 billion at the end of 2016. La Caisse has focused particularly on Québec's private sector, which is a driver of the economy, evidenced by its total assets of $36.9 billion. La Caisse also implemented a number of initiatives to strengthen its presence with entrepreneurs and contribute to the economy's development and vitality. In 2016, la Caisse focused its activities on three main priorities: growth and globalization; impactful projects; and innovation and the next generation.

TABLE 34

POSITIONING OF TOTAL COMPENSATION BY POSITION TYPE

Position type	Maximum total compensation under the Bylaw[1]	Average positioning of the total compensation paid in 2016 relative to the reference markets under the Bylaw
Investment positions	90th percentile	Between the 40th and 76th percentile and, on average, at the 51st percentile
Non-investment positions	75th percentile	

1. Maximum total compensation refers to percentile positions found in Schedule A (revised by government order-in-council in 1996) of the Internal Bylaw.

REPORT OF THE HUMAN RESOURCES COMMITTEE

- Over the five-year period from 2012 to 2016, la Caisse reached a 10.2% annualized return, generating $100 billion of net investment results and more than $12.3 billion of value-added, despite a complex and volatile economic environment.
- In 2016, la Caisse posted a 7.6% return, generating $18.4 billion of net investment results. This return exceeded by 1.8% that of its benchmark portfolio, which was 5.8%, generating $4.4 billion of value-added.

Performance incentive compensation for 2016

Taking into account incentive compensation paid and deferred, employees' total compensation in 2016 was at the median of the reference markets for a superior performance over five years.

More specifically, a study by Willis Towers Watson showed that the employees' total compensation ranked between the 40th and 76th percentiles (where the 100th percentile represents the highest compensation in the market) of the reference markets, depending on the position type, the specific performance of the portfolios and the compensation paid for these positions (see Table 34, p. 97).

The opinion presented by Hugessen Consulting to la Caisse's Board of Directors stated:

"We reviewed la Caisse's returns and benchmark indexes for 2016, as well as the factors that contributed to its return, and we are satisfied with them. We can confirm, among other things, that the value-added calculations, the 2016 return multiples, the 2012-2016 average return multiples and the 2016 incentive compensation multiples are consistent with la Caisse's incentive compensation program. In our opinion, the total amount of incentive compensation awarded under the program in 2016 is reasonable in the prevailing market conditions and given la Caisse's performance in 2012, 2013, 2014, 2015 and 2016."

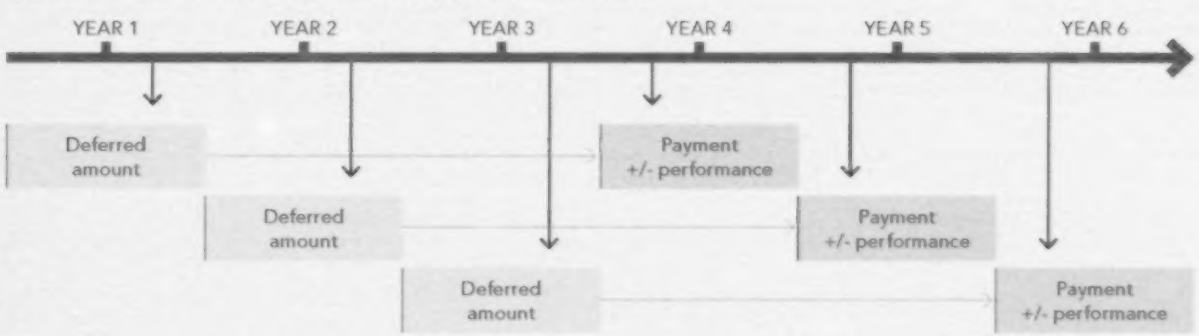
Co-investment: deferred performance incentive compensation

The purpose of co-investment is to better align the interests of those employees with the most influence on la Caisse's financial and organizational performance with the interests of depositors over the long term. The value of the deferred and co-invested performance incentive will vary – upward or downward – along with la Caisse's average absolute overall return during the incentive deferral period.

At the end of each three-year period, the deferred amount, plus or minus the average return credited for the period, will be paid to each participant as a deferred incentive payment with restrictions. Figure 35 illustrates this mechanism.

FIGURE 35

DEFERRED AND CO-INVESTED PERFORMANCE INCENTIVES



Senior executives have three years to contribute at least the equivalent of their base salary to the co-investment account.

For the President and Chief Executive Officer, as well as senior executives, the minimum threshold of the total incentive compensation that must be deferred into a co-investment account is 55%. For all vice-presidents and senior vice-presidents, as well as for intermediate and senior investment employees, the minimum threshold is 35%. Finally, for managers and high-level professionals, the minimum threshold is 25%.

La Caisse offers such employees the option of deferring and co-investing an additional portion of their incentive compensation into the co-investment account. This voluntary participation increased the deferred and co-invested amounts in 2016 by more than 10%.

Pension plan

Depending on their positions, all employees are members and contribute to one of two defined-benefit pension plans: the Government and Public Employees Retirement Plan (RREGOP) or the Pension Plan of Management Personnel (PPMP). In addition, managers and professionals in strategic positions participate in the Régime additionnel de retraite (RAR) and senior executives participate in the Supplemental Pension Plan for Designated Officers (SPPDO). Under these two plans, they are entitled, as of the normal retirement age, to receive a total annual pension equal to 2% of their eligible earnings for each year or fractional year of plan membership, taking into account the annual tax limits imposed by the Canada Revenue Agency for each year they were not RAR or SPPDO members.

Some senior executives will have additional years of service recognized under the SPPDO, depending on the specific circumstances of their promotion or hiring.

Benefits

Employees enjoy a range of competitive benefits, including group insurance (such as medical, dental and life insurance). Moreover, senior executives benefit from perquisites that mainly cover the costs associated with car allowances. La Caisse also requires senior executives to undergo annual health checkups.

Review of the President and Chief Executive Officer's performance and total compensation

Performance review

At the beginning of 2016, the Committee recommended to the Board for review and approval a series of non-financial individual objectives proposed by the President and Chief Executive Officer. A series of major business objectives aimed to achieve targets aligned with la Caisse's strategy and business plan.

One of the first major objectives involved positioning la Caisse's overall portfolio in the context of modest global economic growth and volatile markets, with a view towards mitigating risk. A second objective aimed to continue to invest in an innovative way by increasing its exposure to certain strategic sectors and by targeting assets and companies through which la Caisse can generate further value-added. Finally, a third objective was to oversee the development of the Réseau électrique métropolitain (REM), both in terms of financing and project planning.

Following the evaluation of these objectives, the Board of Directors determined that the President and Chief Executive Officer had surpassed objectives that he had been given at the beginning of the year and that, again in 2016, he delivered a sustained and exceptional performance.

Review of total compensation

The compensation and other employment conditions of the President and Chief Executive Officer are based on parameters set by the government after consultation with the Board of Directors.

In accordance with his request, Mr. Sabia has received no salary increase since he was appointed in 2009. In 2016, Mr. Sabia's base salary remained unchanged at $500,000.

In 2016, Mr. Sabia received his deferred incentive compensation amount for 2013. The amount of this deferred incentive compensation totalled $1,121,723 and included the return credited since 2013.

REPORT OF THE HUMAN RESOURCES COMMITTEE

The President and Chief Executive Officer's annual incentive compensation was determined on the basis of the same three components as 2015, presented in Figure 36.

This year, the component linked to la Caisse's overall return corresponds to the return over the five-year period from 2012 to 2016. The annualized return for this period is 10.2%, with $12.3 billion of value-added in relation to the benchmark portfolio.

This return represents a superior performance over five years.

As for the component based on the organization's objectives, in the past five years under Mr. Sabia's leadership, la Caisse:

- increased its international presence by opening offices in several countries, where it hired high-caliber talent;
- strengthened its presence in strategic markets, including India, where it entered into partnerships for the first time with local industry stakeholders;
- proposed impactful projects for Québec, including the REM and Espace CDPQ, in which it became owner-operator;
- was an active partner in the growth and globalization of Québec SMEs;
- gradually increased the weight of less-liquid investments;
- continually met depositors' needs by managing the portfolio's risk and liquidity in view of the changing environment;
- attracted and retained top talent, to continue executing its strategy.

In conclusion, under the strong, inspiring leadership of Michael Sabia, Caisse teams were highly driven and strived to exceed objectives. They demonstrated both ambition and prudence in setting and achieving their shared objectives, as well as innovation and collaboration in performing their work on a daily basis. The Committee and the Board of Directors are therefore of the opinion that, once again this year, Mr. Sabia performed exceptionally well, exceeding his objectives by a wide margin.

Like all other senior executives covered by the incentive compensation program, the President and Chief Executive Officer is required to defer a minimum of 55% of his incentive compensation into a co-investment account. For his having achieved the annual objectives, the Board of Directors paid to Mr. Sabia $1,160,000 of incentive compensation, and he elected to defer an amount of $1,740,000 into the co-investment account. In 2019, Mr. Sabia will be eligible to receive the deferred incentive compensation related to this amount, increased or decreased according to la Caisse's average absolute return over the three-year period, between 2017 and 2019.

FIGURE 36

PERFORMANCE INCENTIVE COMPONENTS OF THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

CAISSE OVERALL RETURN	→	Based on the level of attainment of la Caisse's return objectives
ACHIEVEMENT OF THE ORGANIZATION'S OBJECTIVES	→	Based on the level of attainment of the organization's objectives
INDIVIDUAL CONTRIBUTION	→	Based on the level of attainment of individual objectives

The other employment conditions to which Mr. Sabia is entitled are aligned with la Caisse's policies and comply with the parameters set out in the Internal Bylaw. He received $40,000 in annual perquisites and is a member of la Caisse's Employee Group Insurance Plan.

When he was appointed in 2009, Mr. Sabia waived membership in any pension plan. He also waived any severance pay, regardless of the cause. Even so, given that membership in the basic pension plan is mandatory under the provisions of the Pension Plan of Management Personnel (under Retraite Québec rules), Mr. Sabia is obliged to be a member despite his waiver. In 2016, contributions to the mandatory basic plan represented an annual cost to la Caisse of $20,779.

Compensation of the President and Chief Executive Officer and the five most highly compensated executives for 2014-2016

La Caisse's Board of Directors recognizes the importance of qualified leadership and firmly believes that the policies and programs it has endorsed make it possible to:

- offer competitive compensation in a market where competition for talent is intense and where la Caisse must compete globally to generate the expected returns;
- achieve the strategic objectives that enable la Caisse to fulfill its mission.

Pursuant to the Act respecting the Caisse de dépôt et placement du Québec, la Caisse discloses below, for itself and its wholly-owned subsidiaries, the compensation of the President and Chief Executive Officer as well as that of the five most highly compensated executives reporting directly to him (see Table 41, p. 103).

TABLE 37

REFERENCE MARKET – PRESIDENT AND CHIEF EXECUTIVE OFFICER

- Alberta Investment Management Corporation (AIMCo)
- British Columbia Investment Management Corporation (bcIMC)
- CPP Investment Board
- Healthcare of Ontario Pension Plan (HOOPP)
- Ontario Municipal Employees Retirement System (OMERS)
- Ontario Teachers' Pension Plan (OTPP)
- The Public Sector Pension Investment Board (PSP Investments)

TABLE 38

REFERENCE MARKET – INVESTMENT EXECUTIVE VICE-PRESIDENT POSITIONS

- Addenda Capital
- Alberta Investment Management Corporation (AIMCo)
- British Columbia Investment Management Corporation (bcIMC)
- Canada Post Pension Plan
- CPP Investment Board
- Desjardins Group
- Greystone Managed Investments
- Healthcare of Ontario Pension Plan (HOOPP)
- Hydro-Québec Pension Plan
- Mawer Investment Management
- Ontario Municipal Employees Retirement System (OMERS)
- Ontario Teachers' Pension Plan (OTPP)
- Sun Life Financial
- The Public Sector Pension Investments Board (PSP Investments)
- Workplace Safety and Insurance Board (Ontario)

REPORT OF THE HUMAN RESOURCES COMMITTEE

TABLE 39

REFERENCE MARKET – INVESTMENT POSITIONS

- Addenda Capital
- Air Canada Pension Plan
- Alberta Investment Management Corporation (AIMCo)
- Alberta Pensions Services Corporation
- Alberta Teachers' Retirement Fund Board
- ATB Financial
- BIMCOR
- British Columbia Investment Management Corporation (bcIMC)
- Canada Post Pension Plan
- Canadian Broadcasting Corporation Pension Plan
- Canadian Western Bank
- City of Edmonton
- CN Investment Division
- CPP Investment Board
- Economical Insurance
- FÉRIQUE Management
- Greystone Managed Investments
- Desjardins Group
- Halifax Regional Municipality Pension Plan
- Healthcare of Ontario Pension Plan (HOOPP)
- Hydro-Québec Pension Plan
- Insurance Corporation of British Columbia
- Intact Investment Management
- NAV CANADA
- Mawer Investment Management
- New Brunswick Investment Management Corporation
- Ontario Municipal Employees Retirement System (OMERS)
- Ontario Teachers' Pension Plan (OTPP)
- OPSEU Pension Trust
- SSQ Financial Group
- Sun Life Financial
- Telus Pension Plan
- The Canadian Medical Protective Association
- The Civil Service Superannuation Board
- The Public Sector Pension Investments Board (PSP Investments)
- Triasima
- Workers' Compensation Board of Alberta
- Workplace Safety and Insurance Board (Ontario)

TABLE 40

REFERENCE MARKET – NON-INVESTMENT POSITIONS

- Addenda Capital
- Air Canada
- Alcoa Canada
- Amex Canada
- Bank of Montreal
- BCE
- BIMCOR
- Bombardier
- Bombardier Recreational Products (BRP)
- Broadridge Financial Solutions Canada
- Canadian Broadcasting Corporation
- Canadian National Railway Company
- CGI Group
- CIBC Mellon
- CN Investment Division
- COGECO
- Desjardins Group
- Dollarama
- Dundee Corporation
- Gaz Métro
- General Electric Canada
- Gesca
- Home Capital Group
- Hydro-Québec
- IBM Canada
- Intact Financial Corporation
- Intact Investment Management
- Keurig Canada
- Kruger
- Laurentian Bank of Canada
- Loto-Québec
- MasterCard Canada
- McKesson Canada
- Merck Canada
- Molson Coors Canada
- Northbridge Financial Corporation
- Power Corporation of Canada
- Pfizer Canada
- Quebecor
- Rio Tinto Alcan
- SNC-Lavalin Group
- Société des alcools du Québec
- SSQ Financial Group
- Telus
- Tembec
- The Great-West Life Assurance Company
- The Public Sector Pension Investment Board (PSP Investments)
- TMX Group
- Transcontinental
- UAP
- Via Rail Canada
- Videotron
- Yellow Media

TABLE 41

SUMMARY OF THE COMPENSATION OF THE PRESIDENT AND CEO AND THE FIVE MOST HIGHLY COMPENSATED EXECUTIVES FOR 2014-2016

Name and main position	Fiscal year	Base salary ($) A	Incentive compensation paid[1] ($) B	Other compensation ($) C	Direct compensation ($) D=A+B+C	Deferred and co-invested compensation paid[2] ($) E	Annual total compensation paid[3] ($) F=D+E
Michael Sabia President and CEO	2016	500,000	1,160,000	40,000	1,700,000	1,121,723	2,821,723
	2015	500,000	1,122,000	40,000	1,662,000	939,020	2,601,020
	2014	500,000	600,000	40,000	1,140,000	1,058,102	2,198,102
Roland Lescure Executive Vice-President and Chief Investment Officer[4]	2016	525,000	1,076,000	40,000	1,641,000	987,739	2,628,739
	2015	500,000	1,035,000	40,000	1,575,000	617,070	2,192,070
	2014	500,000	619,740	40,000	1,159,740	581,956	1,741,696
Macky Tall Executive Vice-President, Infrastructure and President and CEO, CDPQ Infra[5]	2016	420,000	940,000	30,000	1,390,000	436,225	1,826,225
	2015	N/A	N/A	N/A	N/A	N/A	N/A
	2014	N/A	N/A	N/A	N/A	N/A	N/A
Jean Michel Executive Vice-President, Depositors and Total Portfolio[6]	2016	390,000	383,000	727,720	1,500,720	N/A	1,500,720
Christian Dubé Executive Vice-President, Québec	2016	415,000	574,000	30,000	1,019,000	N/A	1,019,000
	2015	415,000	540,000	30,000	985,000	N/A	985,000
	2014	124,500	94,000	8,790	227,290	N/A	227,290
Claude Bergeron Executive Vice-President and Chief Risk Officer	2016	400,000	405,000	30,000	835,000	387,306	1,222,306
	2015	375,000	248,000	30,000	653,000	358,840	1,011,840
	2014	375,000	210,000	30,000	615,000	363,723	978,723

1. As mentioned on page 99 of this Annual Report, under the incentive compensation program, executives must defer a minimum of 55% of their calculated incentive compensation into a co-investment account. Deferred incentive compensation for 2016 is presented in Table 42 of this Annual Report.
2. Details of the amounts deferred or paid in respect of co-investment are presented in Table 42 of this Annual Report.
3. The value of annual paid total compensation does not include the value of the pension plan. The value of the pension plan is presented in Table 43 of this Annual Report.
4. Mr. Lescure resigned from la Caisse on April 5, 2017.
5. Mr. Tall was promoted in 2016 and now reports directly to the President and Chief Executive Officer of la Caisse.
6. Mr. Michel receives lump sum instalments until 2018 as compensation for amounts he had to forfeit when he was hired. This amount, which is included in column C, is $700,220 for 2016.

REPORT OF THE HUMAN RESOURCES COMMITTEE

TABLE 42

SUMMARY OF THE DEFERRED AND CO-INVESTED COMPENSATION OF THE PRESIDENT AND CEO AND OF THE FIVE MOST HIGHLY COMPENSATED EXECUTIVES FOR 2013-2016

Name and main position	Fiscal year	Deferred and co-invested compensation[1] ($)	Cumulative return at the time of payment ($)	Deferred and co-invested compensation paid[2] ($)
Michael Sabia President and CEO	2016	1,740,000		
	2015	1,823,000		
	2014	1,360,000		
	2013	900,000	221,723	1,121,723
Roland Lescure Executive Vice-President and Chief Investment Officer	2016	1,649,000		
	2015	1,415,000		
	2014	880,260		
	2013	792,500	195,239	987,739
Macky Tall Executive Vice-President, Infrastructure and President and CEO, CDPQ Infra	2016	760,000		
	2015	N/A		
	2014	N/A		
	2013	350,000	86,225	436,225
Jean Michel Executive Vice-President, Depositors and Total Portfolio	2016	467,000		
	2015	N/A		
	2014	N/A		
	2013	N/A	N/A	N/A
Christian Dubé Executive Vice-President, Québec	2016	926,000		
	2015	700,000		
	2014	141,000		
	2013	N/A	N/A	N/A
Claude Bergeron Executive Vice-President and Chief Risk Officer	2016	495,000		
	2015	412,000		
	2014	315,000		
	2013	310,750	76,556	387,306

1. The amounts appearing in the table refer to the portion of the incentive compensation from previous years and the current year, which is deferred over a three-year period.
2. Deferred and co-invested compensation paid corresponds to the sum of the deferred and co-invested compensation and the return earned during the three-year period. The returns earned correspond to the weighted average return on la Caisse's depositors' funds expressed as a percentage, as published by la Caisse for each of its fiscal years and each of its six-month periods, compounded over a three-year period.

TABLE 43

PENSION SUMMARY OF THE PRESIDENT AND CEO AND THE FIVE MOST HIGHLY COMPENSATED EXECUTIVES

Name and main position	Years of credited service[1]	Annual benefits payable[2] ($) At year-end	Annual benefits payable[2] ($) At age 65	Accrued obligation at start of year[3] ($)	Change due to compensatory items[4] ($)	Change due to non-compensatory items[5] ($)	Accrued obligation at year-end[3] ($)
Michael Sabia President and CEO[6]	7.8	22,600	27,600	0	0	0	0
Roland Lescure Executive Vice-President and Chief Investment Officer	7.2	257,000	525,000	2,813,800	506,200	(51,900)	3,268,100
Macky Tall Executive Vice-President, Infrastructure, and President and CEO, CDPQ Infra	12.5	74,800	214,800	0	754,600	(62,400)	692,200
Jean Michel Executive Vice-President, Depositors and Total Portfolio	0.9	15,600	351,300	0	250,100	(33,600)	216,500
Christian Dubé Executive Vice-President, Québec	2.3	38,100	103,100	368,600	267,900	(9,700)	626,800
Claude Bergeron Executive Vice-President and Chief Risk Officer	36.2	278,300	343,700	2,113,000	219,900	52,300	2,385,200

1. This is the number of years of credited service in the basic plan.
2. Annual benefits equal the amount of pension payable under the basic plan and the supplemental plan at year-end or at age 65.
3. The obligations do not include those of the basic plan because employer and employee contributions are remitted to Retraite Québec, which assumes the liability for the benefits. La Caisse's contribution was $20,779 per executive in 2016.
4. The change due to compensatory items includes the annual cost of pension benefits, base salary changes in relation to the salary increase assumption used, plan changes or the award of additional years of service.
5. The change due to non-compensatory items includes amounts attributable to the interest accrued on the obligation at the beginning of the year, actuarial gains and losses associated with non-compensatory items and changes in actuarial assumptions.
6. When Mr. Sabia was appointed in 2009, he waived membership in any pension plan. Under Retraite Québec rules, however, membership in the Pension Plan of Management Personnel is mandatory, as described on its website at http://www.carra.gouv.qc.ca/ang/regime/rrpe/rrpe_s03.htm.

REPORT OF THE HUMAN RESOURCES COMMITTEE

TABLE 44

SUMMARY OF SEVERANCE PAY FOR THE PRESIDENT AND CEO AND THE FIVE MOST HIGHLY COMPENSATED EXECUTIVES

Name and main position	Precipitating event	Theoretical amount payable ($)
Michael Sabia President and CEO[1]	Contract termination	0
Roland Lescure Executive Vice-President and Chief Investment Officer[2]	Non-voluntary termination	1,050,000
Macky Tall Executive Vice-President, Infrastructure, and President and CEO, CDPQ Infra[3]	Non-voluntary termination	840,000
Jean Michel Executive Vice-President, Depositors and Total Portfolio[4]	Non-voluntary termination	850,000
Christian Dubé Executive Vice-President, Québec[5]	Non-voluntary termination	830,000
Claude Bergeron Executive Vice-President and Chief Risk Officer[6]	Non-voluntary termination	910,000

1. When Mr. Sabia was appointed in 2009, he waived any severance plan, regardless of cause.
2. In the event of dismissal without just and sufficient cause, this executive's employment contract provides for severance pay equal to 24 months of his annual base salary.
3. In the event of dismissal, this executive's employment contract does not provide any particular condition. His severance pay was therefore evaluated using la Caisse's reference framework, which provides severance pay equal to 24 months of his annual base salary.
4. In the event of dismissal without just and sufficient cause, this executive's employment contract provides for severance pay equal to 24 months of his annual base salary.
5. In the event of dismissal without just and sufficient cause, this executive's employment contract provides for severance pay equal to 24 months of his annual base salary.
6. In the event of dismissal without just and sufficient cause, this executive's employment contract provides for severance pay equal to his annual base salary, increased by an amount equivalent to his annual target incentive compensation and the annual amount related to perquisites.

TABLE 45

REFERENCE MARKETS AND CAISSE DIRECT COMPENSATION IN 2016 FOR THE PRESIDENT AND CEO AND THE FIVE MOST HIGHLY COMPENSATED EXECUTIVES[1,5]

	Reference markets Direct compensation paid		Caisse
Main position	Maximum compensation under the Bylaw[2] ($) A	For a superior performance[3] ($) B=75%xA	Direct compensation paid in 2016[4] ($)
President and CEO	5,485,300	4,114,000	2,821,723
Executive Vice-President and Chief Investment Officer	4,555,600	3,416,700	2,628,739
Executive Vice-President, Infrastructure and President and CEO, CDPQ Infra	2,878,300	2,158,700	1,826,225
Executive Vice-President, Depositors and Total Portfolio	N/A	N/A	1,500,720
Executive Vice-President, Québec	2,671,300	2,003,500	1,019,000
Executive Vice-President and Chief Risk Officer	1,526,200	1,144,700	1,222,306

1. The direct compensation paid in 2016 is aligned with the principle of "earned" compensation, as defined under the Income Tax Act as compensation that is "paid in cash and taxable".
2. As stipulated in the Internal Bylaw, potential direct compensation at the 75th percentile of the respective reference markets was used for the President and Chief Executive Officer and non-investment positions. The 90th percentile of the reference market was used for investment positions. These theoretical amounts exclude the value of pension plans but include the value of perquisites and long-term compensation.
3. Direct compensation paid by the reference markets for a superior performance corresponds to about 75% of the maximum direct compensation presented in Column A, which is the maximum compensation provided by the Internal Bylaw.
4. These amounts reflect the direct compensation paid in 2016 (Table 41, Column F). This compensation was paid for a 10.2% five-year annualized return (2012 to 2016), equivalent to a superior performance.
5. Willis Towers Watson, Compensation of the President and Chief Executive Officer Study and Compensation of Executive Committee Members Study, Caisse de dépôt et placement du Québec, 2016.

REPORT OF THE INVESTMENT AND RISK MANAGEMENT COMMITTEE

Highlights

1

Reviewed accountability with respect to the 2016-2019 strategy for the specialized portfolios and the retrospective analysis for 2016.

2

Revised the specialized portfolio offering in the Fixed Income unit to ensure optimal management of investment activities and risk, and made recommendations to the Board on investment policies for the Rates and Credit portfolios.

3

Recommended to the Board the currency management strategy.

THE INVESTMENT AND RISK MANAGEMENT COMMITTEE

The Board of Directors established the Investment and Risk Management Committee to help the Audit Committee fulfill its duty to implement a risk management process.

MANDATE

The Committee's mandate is to ensure that risk management policies and guidelines are in place with the objective of achieving an optimal risk-return relationship. For a full description of the Committee's mandate, consult the Governance section of the Caisse website (www.cdpq.com).

COMPOSITION (as at December 31, 2016)

The Committee's composition was reviewed in 2016.

Four independent members:

- Chair: Jean La Couture
- Members: Patricia Curadeau-Grou, Gilles Godbout and Wendy Murdock
- Guest member: François Joly, Chair of the Audit Committee

The Chair of the Board attends the Committee meetings.

ACTIVITY REPORT

Number of meetings in 2016: 6

The Committee introduced various mechanisms to provide the Audit Committee and the Board with the necessary assurance regarding the implementation of a risk management process. The Committee:

- provided a report to the Board on its activities after each meeting;
- made copies of its minutes available to the Audit Committee and the Board;
- invited the Chair of the Audit Committee to attend each meeting.

Risk management guidelines and policies

In 2016, the Committee fulfilled its responsibilities in ways that included the following:

- Reviewed accountability reports on the 2016-2019 strategy for the specialized portfolios as well as changes in the portfolio and the retrospective analysis of 2016.
- Revised the specialized portfolios offering in the Fixed Income unit to ensure optimal management of investment activities and risk and made recommendations to the Board on investment policies for the Rates and Credit portfolios.
- Revised the investment policies of certain other specialized portfolios, most notably regarding consolidated asset allocation activities, and recommended that the Board approve the changes.
- Revised and recommended to the Board market risk limits and objectives for the Caisse overall portfolio and for each of the specialized portfolios, as well as major mandates and concentration limits for the institution's overall portfolio.
- Revised the oversight and use of derivative financial instruments and made a recommendation to the Board on limits on these financial instruments.
- Reviewed and recommended to the Board for approval the dynamic currency management strategy.
- Reviewed the oversight of liquidity risk and recommended to the Board that la Caisse follow its global strategy for managing this risk.
- Reviewed the framework for managing exposure to la Caisse's investment partners.
- Reviewed and discussed the report of the Operational Risk Internal Committee.
- Reviewed, at each committee meeting, overall risk-return reports for la Caisse as a whole, including the overall portfolio's positioning with respect to risk levels, the benchmark portfolio and strategic directions.
- Reviewed the business plan of the Risk Management group and Internal Audit's report on the effectiveness and efficiency of risk management.

Investment proposals

- Reviewed and recommended investment proposals under the Board's authority, considering the analysis submitted by the team responsible for the transaction, the project's risk analysis and, more specifically, its impact on the risk level and concentration of the specialized portfolio concerned and la Caisse's overall portfolio, as well as the investment's compliance with risk oversight policies and guidelines.
- Discussed the risk-return relationship for each investment proposal submitted to the Committee.
- Received status reports on investment proposals authorized by the Board as well as investments that were authorized by la Caisse's senior management but did not come under the Board's purview.

Depositors

- Analyzed the certificates of compliance with the depositors' investment policies and the specialized portfolios' investment policies.

USE OF THE SERVICES OF EXTERNAL EXPERTS

The Investment and Risk Management Committee did not use the services of external experts in 2016.

Board of Directors and Executive Committee

ORGANIZATIONAL STRUCTURE

La Caisse's Board of Directors consists of the Chairman, the President and Chief Executive Officer, depositors' representatives and independent members. The Act respecting the Caisse stipulates that at least two-thirds of the directors, including the Chairman, must be independent.

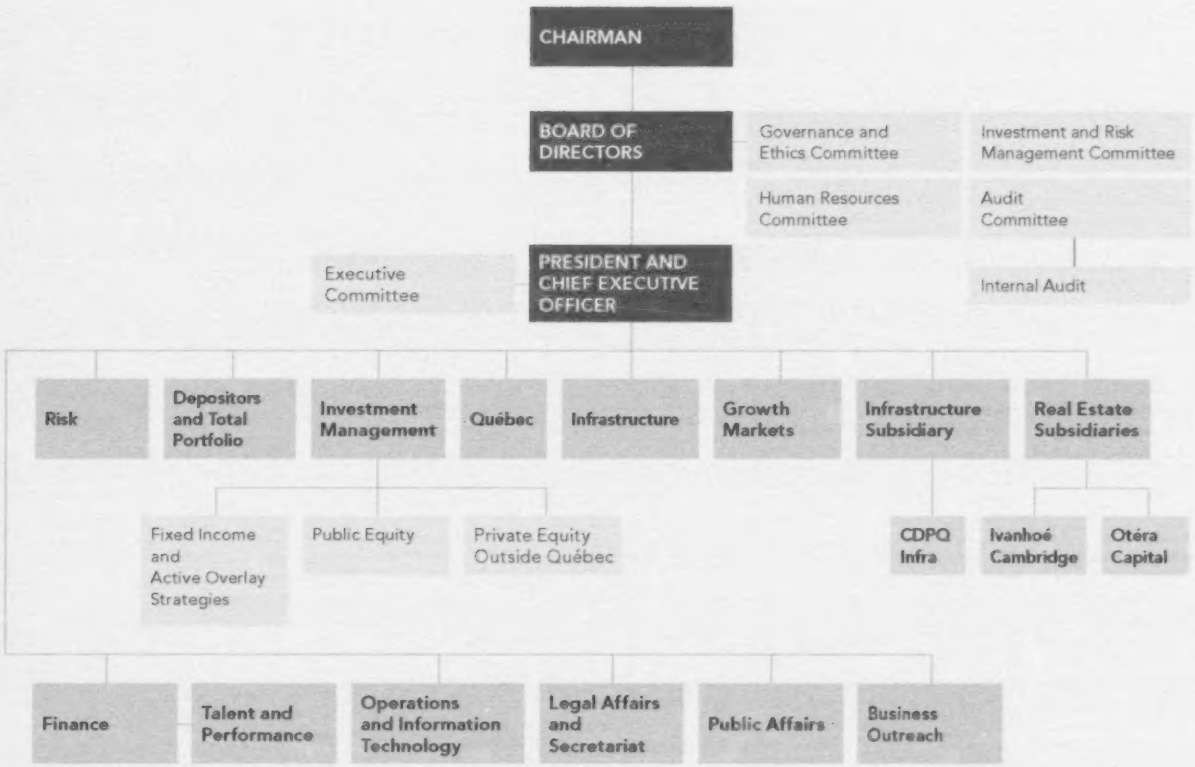
The Executive Committee is composed of the President and Chief Executive Officer and senior officers from la Caisse's various units. As at December 31, 2016, la Caisse had 890-some employees. At that date, Ivanhoé Cambridge and Otéra Capital, the real estate subsidiaries, had more than 1,500 employees.

La Caisse also has an infrastructure subsidiary, CDPQ Infra, which acts as owner-operator of infrastructure projects, and had a total of some 30 employees at the end of 2016.

These subsidiaries are overseen by their own boards of directors (see Figure 46).

FIGURE 46

ORGANIZATIONAL STRUCTURE
(as at December 31, 2016)



REAL ESTATE AND INFRASTRUCTURE SUBSIDIARIES

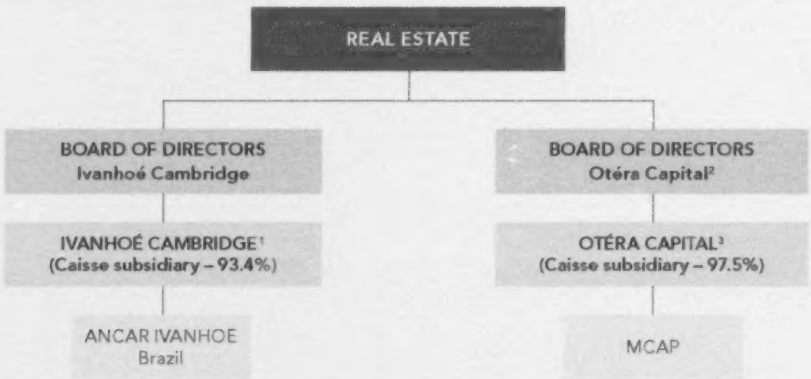
Real estate investments, which take the form of equities and debt, involve primarily shopping centres, office building, residential and logistics properties in key cities worldwide. The holdings are divided into two specialized portfolios: Real Estate and Real Estate Debt. The Real Estate portfolio consists of the assets of Ivanhoé Cambridge, a global real estate industry leader. The Real Estate Debt portfolio consists of the holdings of Otéra Capital, one of the largest commercial real estate financing companies in Canada.

Figure 47 presents the organizational structure of the real estate operations. More information on the real estate subsidiaries can be found at www.ivanhoecambridge.com and www.oteracapital.com.

The infrastructure subsidiary established in 2015, CDPQ Infra aims to effectively and efficiently carry out major public infrastructure projects. Figure 48 presents the organizational structure of CDPQ Infra. More information on CDPQ Infra's operations can be found at www.cdpqinfra.com.

FIGURE 47

ORGANIZATIONAL STRUCTURE – REAL ESTATE SUBSIDIARIES
(as at December 31, 2016)



1. Daniel Fournier, Chairman and Chief Executive Officer, Ivanhoe Cambridge.
2. Sylvain Fortier, Chairman of the Board, Otéra Capital.
3. Alfonso Graceffa, President and Chief Executive Officer, Otéra Capital.

FIGURE 48

ORGANIZATIONAL STRUCTURE – INFRASTRUCTURE SUBSIDIARIES
(as at December 31, 2016)

1. Michael Sabia, President of the Board.
2. Macky Tall, President and Chief Executive Officer; Jean-Marc Arbaud, Deputy Managing Director.

BOARD OF DIRECTORS

ROBERT TESSIER
Chairman of the Board of Directors
Committees: Governance and Ethics / Human Resources
Member since March 2009

ELISABETTA BIGSBY
Corporate Director
Committee: Human Resources
Member since November 2009

BERTRAND CESVET
Chief Executive Officer and Senior Partner
Sid Lee Inc.
Committee: Human Resources
Member since April 2015

PATRICIA CURADEAU-GROU
Corporate Director
Committee: Investment and Risk Management
Member since October 2013

MICHEL DESPRÉS
President and Chief Executive Officer
Retraite Québec
Member since March 2016

RITA DIONNE-MARSOLAIS[1]
Economist and Corporate Director
Committees: Governance and Ethics / Audit
Member since January 2013

GILLES GODBOUT
Corporate Director
Committees: Investment and Risk Management / Audit
Member since January 2013

FRANÇOIS JOLY
Corporate Director
Committee: Audit
Member since March 2013

JEAN LA COUTURE
Corporate Director
President, Huis Clos Ltée
Committee: Investment and Risk Management
Member since January 2013

DIANE LEMIEUX
President and Chief Executive Officer
Commission de la construction du Québec
Member since December 2014

WENDY MURDOCK
Corporate Director
Committee: Investment and Risk Management
Member since March 2016

FRANÇOIS R. ROY
Corporate Director
Committees: Audit / Governance and Ethics
Member since December 2009

MICHAEL SABIA
President and Chief Executive Officer
Caisse de dépôt et placement du Québec
Member since March 2009

OUMA SANANIKONE
Corporate Director
Committees: Governance and Ethics / Human Resources
Member since August 2007

1. Rita Dionne-Marsolais was replaced by Maryse Bertrand in 2017.

The biographies of the members of the Board of Directors can be found in the Governance section of the Caisse website at www.cdpq.com.

EXECUTIVE COMMITTEE

CLAUDE BERGERON
Executive Vice-President
and Chief Risk Officer

MICHÈLE BOISVERT
Executive Vice-President
Business Outreach

ANI CASTONGUAY
Senior Vice-President
Public Affairs

MARC CORMIER
Executive Vice-President
Fixed Income and
Active Overlay Strategies
Investment Management

CHRISTIAN DUBÉ
Executive Vice-President
Québec

JEAN-LUC GRAVEL
Executive Vice-President
Equity Markets
Investment Management

RASHAD KALDANY
Executive Vice-President
Growth Markets

ROLAND LESCURE[2]
Executive Vice-President
and Chief Investment Officer

JEAN MICHEL
Executive Vice-President
Depositors and Total Portfolio

PIERRE MIRON
Executive Vice-President
Chief Operations and IT Officer

MAARIKA PAUL
Executive Vice-President
and Chief Financial Officer

MICHAEL SABIA
President and Chief Executive Officer

OONA STOCK
Executive Vice-President
Talent and Performance

MACKY TALL
Executive Vice-President,
Infrastructure and President
and Chief Executive Officer,
CDPQ Infra

KIM THOMASSIN[1]
Executive Vice-President
Legal Affairs and Secretariat

1. Kim Thomassin took up her duties in January 2017.
2. Roland Lescure resigned from la Caisse on April 5, 2017.

The biographies of the members of the Board of Directors can be found in the Governance section of the Caisse website at www.cdpq.com.

Financial Report

CHANGE IN ASSETS

NET ASSETS ATTRIBUTABLE TO DEPOSITORS

Net assets attributable to depositors grew from $159.0 billion as at December 31, 2011, to $270.7 billion as at December 31, 2016, increasing $111.7 billion over five years. This growth is due primarily to net investment results of $100.0 billion, in addition to depositors' net contributions of $11.7 billion (see Table 52, p. 119).

During 2016, net assets attributable to depositors increased by $22.7 billion to $270.7 billion, compared to $248.0 billion as at December 31, 2015. This increase was due to $18.4 billion of net investment results, which came mainly from the Equity asset class, contributing $12.3 billion, and from Real Assets, which contributed $4.4 billion, as well as net contributions by depositors of $4.3 billion.

TOTAL ASSETS

Total assets reached $315.9 billion as at December 31, 2016, versus $290.8 billion at the end of 2015 (see Table 49). This $25.1-billion increase was due to reinvestment of investment income, net realized gains and depositors' contributions. La Caisse, which has a solid financial position, reduced its liabilities to total assets ratio slightly, to 14%. La Caisse's liabilities consist primarily of securities sold under repurchase agreements and the financing programs of its subsidiary CDP Financial, which are used mainly to finance real estate investments.

ASSETS UNDER MANAGEMENT AND ASSETS UNDER ADMINISTRATION

La Caisse and its subsidiaries administer and manage assets entrusted to them by clients and on their behalf. These assets are not included in la Caisse's Consolidated Statement of Financial Position. La Caisse and its subsidiaries receive fees in return for such portfolio management services and administrative services, which include the administration of real estate properties and transferred mortgages.

As at December 31, 2016, la Caisse's assets under management and administered assets totalled $78.3 billion, up $4.9 billion from one year earlier (see Table 50).

This growth came primarily from the portfolio administered by MCAP Commercial LP, a subsidiary of Otéra Capital. This company administers more than $57.0 billion of Canadian residential, commercial and construction mortgages.

TABLE 49

FINANCIAL INFORMATION – FINANCIAL POSITION
(as at December 31 – in millions of dollars)

	2016	2015
ASSETS		
Investments	**308,875**	286,845
Other assets	**6,984**	3,972
Total assets	**315,859**	290,817
LIABILITIES		
Investment liabilities	**42,890**	41,039
Other liabilities	**2,223**	1,753
Total liabilities excluding net assets attributable to depositors	**45,113**	42,792
Net assets attributable to depositors	**270,746**	248,025

TABLE 50

FINANCIAL INFORMATION – TOTAL ASSETS UNDER MANAGEMENT
(as at December 31 – in millions of dollars)

	2016	2015
Total assets	**315,859**	290,817
Assets under management	**18,569**	20,505
Assets under administration	**59,723**	52,850
Assets under management and assets under administration	**78,292**	73,355
Total assets under management	**394,151**	364,172

NET INVESTMENT RESULTS

Over five years, net investment results amounted to $100.0 billion. The Equity asset class contributed the most, generating $63.7 billion of net investment results, including close to $50.3 billion from the public equity portfolios.

In 2016, la Caisse recorded net investment results of $18.4 billion (see Table 51). Of this amount, $12.3 billion comes from the Equity asset class, a large part of which is attributable to the high return on the Canadian equity market as well as on private equity. Real Assets also generated favourable results in 2016, with the largest contribution, $3.0 billion, made by the Real Estate portfolio.

NET CONTRIBUTIONS BY DEPOSITORS

Total net contributions by depositors as at December 31, 2016 were $4.3 billion, mainly due to the contributions made by the Retirement Plans Sinking Fund, the Generations Fund, as well as six Ville de Québec pension plans newly added to the list of depositors.

TABLE 51

FINANCIAL INFORMATION – RESULTS BEFORE DISTRIBUTIONS TO DEPOSITORS

(as at December 31 – in millions of dollars)

	2016	2015
Net investment income	9,063	7,504
Operating expenses	(463)	(396)
Net income	8,600	7,108
Net realized gains	9,556	975
Net unrealized gains	261	12,026
Net gains on financial instruments at fair value	9,817	13,001
Net investment results before distributions to depositors	18,417	20,109

TABLE 52

FINANCIAL INFORMATION – SUMMARY OF CHANGES IN NET ASSETS ATTRIBUTABLE TO DEPOSITORS

(for the period from 2012 to 2016 – in billions of dollars)

	2016	2015	2014	2013	2012	5 years
Net assets attributable to depositors, beginning of year	248.0	225.9	200.1	176.2	159.0	159.0
Net investment results before distributions to depositors	18.4	20.1	23.8	22.8	14.9	100.0
Net contributions by depositors	4.3	2.0	2.0	1.1	2.3	11.7
Net assets attributable to depositors, end of year	270.7	248.0	225.9	200.1	176.2	270.7

ANALYSIS OF OPERATING EXPENSES AND EXTERNAL MANAGEMENT FEES

Operating expenses represent la Caisse's total portfolio management and administration costs. External management fees are amounts paid to external financial institutions to manage funds on la Caisse's behalf.

For fiscal 2016, operating expenses totalled $463 million, compared to $396 million in 2015. This difference is a result of la Caisse's deployment of the strategic planning, which aims most notably to increase its international footprint, pursue an absolute-return management approach and acquire more less-liquid assets, requiring the hiring of specialized expertise. External management fees totalled $38 million, or $11 million more than in 2015, mainly because of an increase in the value of assets managed externally, particularly in growth markets. In the consolidated financial statements, external management fees are netted against investment income.

Operating expenses and external management fees amounted to $501 million in 2016, compared to $423 million in 2015. This amount represents 20.0 cents per $100 of average net assets, which compares favourably to that of our peers (see Figure 53).

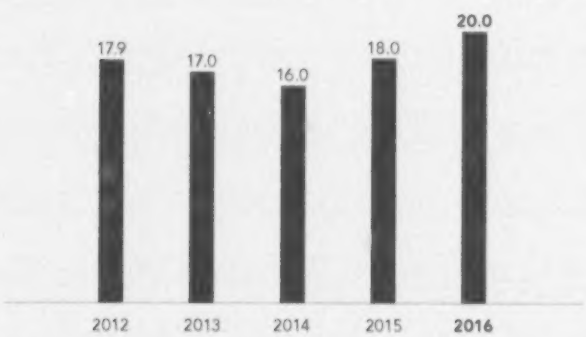
Over five years, operating expenses and external management fees were relatively stable at 18.0 cents per $100 of average net assets.

OPERATIONAL EFFICIENCY

La Caisse periodically reviews its procedures to maintain tight control over its operating expenses. It aims to maintain operating expenses at a level that, taking into account its investment mix, is comparable to that of institutional fund managers of the same size with similar operations. La Caisse has been benchmarking its costs by asset class for many years.

FIGURE 53

OPERATING EXPENSES AND EXTERNAL MANAGEMENT FEES EXPRESSED PER $100 OF DEPOSITORS' AVERAGE NET ASSETS
(for periods ended December 31 – in cents)



CDP FINANCIAL

CDP Financial is a wholly-owned subsidiary of la Caisse. Its transactions are designed to optimize the cost of financing the operations of la Caisse and its subsidiaries, to diversify their sources of financing and to match financed assets in terms of currencies and interest rates. To achieve its objectives, it has two financing programs on the local and international institutional markets: short-term borrowing and long-term borrowing.

SHORT-TERM BORROWING

As at December 31, 2016, short-term financing totalled $4.8 billion, with $1 billion on the Canadian market and USD 2.9 billion on the U.S. market. In 2016, the average maturity of the borrowings on the Canadian market was 103 days, and transactions totalled $3.8 billion, while the average maturity of the borrowings on the U.S. market was 109 days, and transactions totalled USD 9.7 billion.

TERM BORROWING

As at December 31, 2016, the fair value of CDP Financial's outstanding term notes totalled $9.6 billion, versus $9.9 billion at the end of 2015 (see Figure 54). The $0.3-billion decrease from 2015 is in large part due to the depreciation of the U.S. dollar relative to the Canadian dollar.

GEOGRAPHIC ALLOCATION

The geographic allocation of the financing is as follows: 77% of the debt instruments are outstanding on the U.S. market, 15% on the Canadian market and 8% on the European market.

CREDIT RATING AGENCIES REAFFIRM LA CAISSE'S FINANCIAL STRENGTH

Dominion Bond Rating Services (DBRS), Moody's Investors Service (Moody's) and Standard & Poor's (S&P) reaffirmed their investment-grade credit ratings with a stable outlook in 2016 (see Table 55). The credit ratings of CDP Financial and la Caisse were published in July, September and November 2016.

FIGURE 54

BREAKDOWN OF LIABILITIES – CDP FINANCIAL
(fair market value as at December 31 – in billions of dollars)

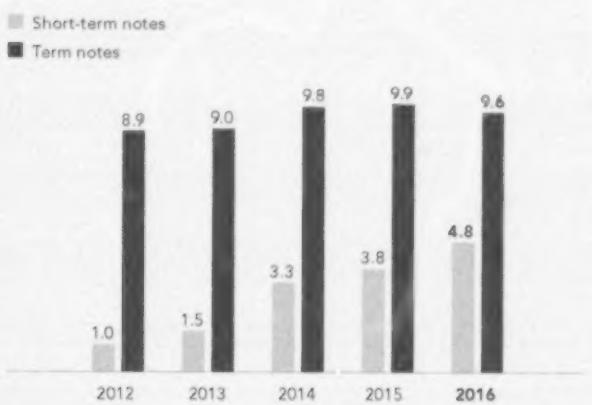


TABLE 55

CREDIT RATINGS

	Short-term	Long-term
DBRS	R-1 (high)	AAA
Moody's	Prime-1 (Aaa)	Aaa
S&P	A-1 + A-1 (HIGH)	AAA

SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of la Caisse include the accounts of the General Fund, the individual funds and the specialized portfolios, as well as the accounts of its subsidiaries exclusively offering services related to financing, administrative and management operations. Net assets attributable to depositors presented in the Consolidated Statement of Financial Position reflect the combined net value of the accounts of each of the depositors of la Caisse. Note 2 to the Audited Consolidated Financial Statements as at December 31, 2016 describes the significant accounting policies used by la Caisse.

FINANCIAL REPORTING

The consolidated financial statements of la Caisse are presented in accordance with the prevailing accounting standards, namely International Financial Reporting Standards (IFRS), as stipulated in the Act respecting the Caisse de dépôt et placement du Québec. Accounting policies have been applied consistently for all years presented.

EXTERNAL AUDIT

In accordance with the Act respecting the Caisse, the co-auditors audited all of la Caisse's accounting records and issued an unqualified auditors' report for each of the 69 financial statements.

Significant IFRS accounting standards applicable to the consolidated financial statements of la Caisse

Investment entities

Under IFRS 10, Consolidated Financial Statements, the subsidiaries that constitute an investment for an investment entity must be presented and measured at fair value. Accordingly, la Caisse, qualified as an investment entity, does not consolidate its investments, particularly in its real estate, real estate debt, private equity and infrastructure subsidiaries. Valuation of these investments is based on a corporate valuation technique in accordance with IFRS.

Fair value measurement

IFRS 13, Fair Value Measurement, provides a single source of guidelines for all fair value measurements. Fair value is defined as the price that would be received on the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The main techniques for measuring la Caisse's liquid and less-liquid investments are described in Note 7 to the Consolidated Financial Statements on page 146.

Financial measures

As part of issuing certain information included in the Annual Report, la Caisse uses and presents both measures in accordance with IFRS and other financial measures inconsistent with IFRS. La Caisse is of the opinion that these measures provide relevant information, complementary to the analysis of its financial reporting (see General Notes 3 and 6, on page 181).

FAIR VALUE MEASUREMENT

FAIR VALUE MEASUREMENT POLICY

Investment valuation is a process whereby a fair value is assigned to each of la Caisse's investments with a view to preparing the consolidated financial statements. Measurement of investments at fair value is performed periodically in accordance with la Caisse's investment valuation policy, which is approved by the Board of Directors. This comprehensive policy is then supported by the valuation directive and protocols that indicate the valuation methodology to be applied for each type of investment. The policy, directive and protocols also dictate governance of the valuation and reporting processes. The implementation of the policy is the responsibility of the Valuation Committee, which reports to the Executive Committee. The Valuation Committee approves the directive, compliance with the policy, and the fair value of la Caisse's investments semi-annually. Accordingly, the Valuation Committee recommends these fair values to the Audit Committee. The policy complies with the standards and practices of Canadian and international valuation bodies.

Under the policy, when fair value is determined by external valuators or third parties, the Valuation Committee verifies the qualifications, experience and independence of these parties. It also reviews the valuation techniques, the significant inputs used in calculating fair value, and the results and conclusions to ensure that they comply with recognized valuation standards.

In addition, to ensure the reasonableness of the fair value determined, la Caisse may perform back-testing, compare the established fair value with values of comparable transactions, and use external valuators.

Co-auditors have access to all valuation files as part of the audit of the year-end consolidated financial statements.

CONCEPTUAL FRAMEWORK

International Financial Reporting Standards (IFRS) define fair value and provide guidelines on measurement and disclosures related to fair value. Entities are required to maximize the use of relevant observable inputs and minimize the use of unobservable inputs when measuring fair value. Fair value must be established by assuming that the investments are available for sale, that is, that the fair value of investments corresponds to an exit price at the date of the financial statements. The purpose of the accounting standards is to define a single conceptual framework that can be used in all situations requiring fair value measurement.

La Caisse considers that International Financial Reporting Standards constitute a coherent framework for fair value measurement. Nevertheless, these restrictive standards do not take into account the fact that, in accordance with the very long-term investment horizon adopted by its main depositors, la Caisse has the means and intends to hold certain investments until their optimal value is attained.

As such, the fair value established as at December 31, 2016 for investments in less-liquid markets, such as real estate assets, real estate debt, private equity and infrastructure, reflects the general volatility of the financial markets, and this may differ from the economic value of long-term investments.

Note 7 to the Consolidated Financial Statements, on page 146, describes fair value measurement techniques.

Consolidated Financial Statements

MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL REPORTING

Preparation and presentation of the consolidated financial statements of la Caisse de dépôt et placement du Québec ("la Caisse") are the responsibility of management. The consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB) and incorporated into the *CPA Canada Handbook*. We ensure that the financial data in the Annual Report are consistent with those in the consolidated financial statements.

The consolidated financial statements include amounts based on management's best estimates and judgment, with due regard for their relative importance. Moreover, in the preparation of the financial information, management has made decisions regarding the information to be presented, has made estimates and has made assumptions that affect the information presented. Future results may differ considerably from our current estimates, because of changes in the financial markets or other events that may have an impact on the fair value of the investments.

In our responsibility for the reliability of financial information, we use a sophisticated internal control mechanism applied systematically on all levels of the organization. This mechanism consists of organizational and operational controls, financial information disclosure controls and procedures, and internal control over financial information. La Caisse's internal control mechanism is based, among other things, on a clear definition of responsibilities; effective allocation of duties and delegation of powers; competent resources; appropriate procedures, information systems, tools and practices; relevant and reliable information whose adequacy enables all employees to fulfill their responsibilities; control, compliance and integrated risk management measures that are proportional to the issues specific to each process and designed to reduce risks likely to affect achievement of la Caisse's objectives; and oversight of compliance with an extensive body of internal policies.

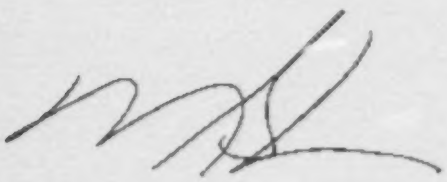
This control mechanism makes it possible to ensure that appropriate internal controls are in place with regards to operations, assets and records. Moreover, la Caisse's internal audit group audits the internal controls on a regular basis. These controls and audits are designed to provide reasonable assurance regarding the reliability of the accounting records used to prepare the consolidated financial statements and to ensure that assets are not used or disposed of in any unauthorized manner, that liabilities are recorded, and that we meet all the legal requirements to which la Caisse is subject, including the *Act respecting the Caisse de dépôt et placement du Québec*.

Each year, we certify that the design of the internal control regarding financial information is sufficient and that the design and functioning of the financial information disclosure controls and procedures are effective. We report any significant irregularity to the Audit Committee of the Board of Directors of la Caisse, as necessary.

The Auditor General of Québec and Ernst & Young LLP (the "co-auditors") have audited the consolidated financial statements of la Caisse as at December 31, 2016 and for the year then ended and their report covers the nature and scope of the audit and expresses their opinion. The co-auditors have unrestricted access to the Audit Committee to discuss any matter relating to their audit.

The Board of Directors and its committees supervise the manner in which management fulfills its responsibility for the establishment and presentation of financial information, maintenance of appropriate internal controls, compliance with the requirements of laws and regulations, management of and control over the main risks and evaluation of major transactions. Moreover, it approves the consolidated financial statements and the Annual Report.

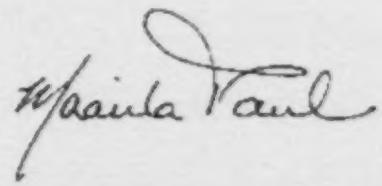
The Board of Directors has approved the consolidated financial statements as at December 31, 2016 and for the year then ended. It is assisted in its responsibilities by the Audit Committee, of which all members are independent directors. This Committee meets with management and the co-auditors, examines the consolidated financial statements and recommends their approval to the Board of Directors.



MICHAEL SABIA

President and Chief Executive Officer

Montréal, February 21, 2017



MAARIKA PAUL, FCPA, FCA, CBV, ICD.D

Executive Vice-President and
Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

To the National Assembly

Report on the consolidated financial statements
We have audited the accompanying consolidated financial statements of la Caisse de dépôt et placement du Québec, which comprise the Consolidated Statement of Financial Position as at December 31, 2016 and the Consolidated Statements of Comprehensive Income, Changes in Net Assets Attributable to Depositors and Cash Flows for the year then ended, as well as a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of la Caisse de dépôt et placement du Québec as at December 31, 2016 and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS).

Report on other legal and regulatory requirements
As required by the *Auditor General Act* (CQLR, chapter V-5.01), we report that, in our opinion, the accounting standards have been applied on a basis consistent with that of the preceding year.

Auditor General of Québec,

Guylaine Leclerc, FCPA auditor, FCA

Montréal, February 21, 2017

Ernst & Young LLP

CPA auditor, CA, permit no. A112431

Montréal, February 21, 2017

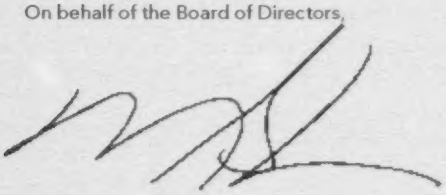
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2016

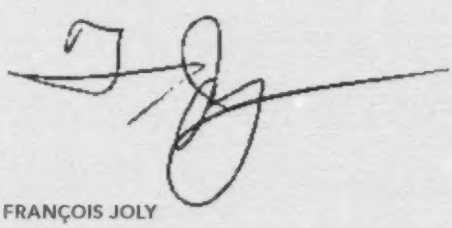
(in millions of Canadian dollars)	2016	2015
Assets		
Cash	**651**	420
Amounts receivable from transactions being settled	**3,898**	1,288
Advances to depositors	**1,068**	776
Investment income, accrued and receivable	**1,173**	1,226
Other assets	**194**	262
Investments *(Note 4)*	**308,875**	286,845
Total assets	**315,859**	290,817
Liabilities		
Amounts payable on transactions being settled	**1,687**	1,224
Other financial liabilities	**536**	529
Investment liabilities *(Note 4)*	**42,890**	41,039
Total liabilities excluding net assets attributable to depositors	**45,113**	42,792
Net assets attributable to depositors	**270,746**	248,025

The accompanying notes are an integral part of the consolidated financial statements.

On behalf of the Board of Directors,



MICHAEL SABIA



FRANÇOIS JOLY

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2016

(in millions of Canadian dollars)	2016	2015
Investment income *(Note 9)*	**9,682**	8,131
Investment expense *(Note 9)*	**(619)**	(627)
Net investment income *(Note 9)*	**9,063**	7,504
Operating expenses *(Note 11)*	**(463)**	(396)
Net income	**8,600**	7,108
Net realized gains *(Note 10)*	**9,556**	975
Net unrealized gains *(Note 10)*	**261**	12,026
Net gains on financial instruments at fair value	**9,817**	13,001
Net investment result before distributions to depositors *(Note 10)*	**18,417**	20,109
Distributions to depositors	**(11,783)**	(12,801)
Comprehensive income attributable to depositors	**6,634**	7,308

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO DEPOSITORS

For the year ended December 31, 2016

(in millions of Canadian dollars)	Demand deposits	Term deposits	Distributions payable to depositors	Participation deposits	Net assets attributable to depositors
Balance as at December 31, 2014	225	198	1,621	223,807	225,851
Attributions and distributions					
Comprehensive income attributable to depositors	–	–	–	7,308	7,308
Distributions to depositors	12,304	–	497	–	12,801
Participation deposits					
Issuance of participation deposit units	(14,539)	–	–	14,539	–
Cancellation of participation deposit units	282	–	–	(282)	–
Net deposits					
Net change in term deposits	193	(193)	–	–	–
Net contributions by depositors	2,065	–	–	–	2,065
BALANCE AS AT DECEMBER 31, 2015	530	5	2,118	245,372	248,025
Attributions and distributions					
Comprehensive income attributable to depositors	–	–	–	6,634	6,634
Distributions to depositors	12,528	–	(745)	–	11,783
Participation deposits					
Issuance of participation deposit units	(17,312)	–	–	17,312	–
Cancellation of participation deposit units	679	–	–	(679)	–
Net deposits					
Net change in term deposits	(1)	1	–	–	–
Net contributions by depositors	4,304	–	–	–	4,304
BALANCE AS AT DECEMBER 31, 2016	728	6	1,373	268,639	270,746

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2016

(in millions of Canadian dollars)	2016	2015
Cash flows from operating activities		
Comprehensive income attributable to depositors	**6,634**	7,308
Adjustments for:		
Net unrealized (gains) losses and amortization on commercial paper, loans and term notes payable	**(359)**	1,117
Distributions to depositors	**11,783**	12,801
Net changes in operating assets and liabilities		
Amounts receivable from transactions being settled	**(2,610)**	58
Advances to depositors	**(292)**	314
Investment income, accrued and receivable	**53**	(77)
Other assets	**68**	(139)
Investments	**(23,035)**	(19,625)
Amounts payable on transactions being settled	**463**	(76)
Other financial liabilities	**7**	(119)
Investment liabilities	**1,065**	(3,545)
	(6,223)	(1,983)
Cash flows from financing activities		
Net change in commercial paper payable	**(1,725)**	566
Issuance of commercial paper payable	**6,421**	3,200
Repayment of commercial paper payable	**(3,625)**	(3,350)
Net change in loans payable	**74**	(232)
Issuance of loans payable	**–**	1
Repayment of loans payable	**–**	(642)
Repayment of term notes payable	**–**	(1,000)
Net contributions by depositors	**4,304**	2,065
	5,449	608
Net decrease in cash and cash equivalents	**(774)**	(1,375)
Cash and cash equivalents at the beginning of the year	**2,665**	4,040
Cash and cash equivalents at the end of the year	**1,891**	2,665
Cash and cash equivalents comprise:		
Cash	**651**	420
Investments		
Securities purchased under reverse repurchase agreements	**1,240**	2,245
	1,891	2,665
Supplemental information on cash flows from operating activities		
Interest and dividends received	**10,130**	8,289
Interest paid	**(574)**	(536)

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts are presented in millions of Canadian dollars, unless otherwise indicated.)

01
CONSTITUTION AND NATURE OF OPERATIONS

La Caisse de dépôt et placement du Québec ("la Caisse"), a legal person established in the public interest within the meaning of the *Civil Code of Québec*, is governed by the *Act respecting the Caisse de dépôt et placement du Québec* (CQLR, chapter C-2) (the "Act").

La Caisse is domiciled in Québec, Canada. Its head office is located at 65 Sainte-Anne, Québec City, Canada and its main office is located at 1000 Place Jean-Paul-Riopelle, Montréal, Canada.

La Caisse's mission is to receive moneys on deposit as provided by the Act and to manage them with a view to achieving an optimal return on depositors' capital within the framework of the depositor investment policies while also contributing to Québec's economic development.

CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements have been prepared for the purposes of presenting la Caisse's financial position, financial performance and cash flows. La Caisse's consolidated financial statements include the accounts of the General Fund, of the individual funds, and of the specialized portfolios as well as the accounts of its subsidiaries that exclusively offer services related to financing, administrative and management activities. In preparing the consolidated financial statements, all intercompany transactions and balances have been eliminated.

The investing activities of the depositors in la Caisse's various specialized portfolios are concluded through the participation deposit units of individual funds.

GENERAL FUND

The General Fund comprises cash and cash equivalent activities that include the management of demand deposits, term deposits, and the financing activities of la Caisse.

INDIVIDUAL FUNDS

The individual funds consist mainly of diversified investments in specialized portfolios. Each individual fund is dedicated to a single depositor who invests in the participation deposits of individual funds.

The individual funds of depositors are as follows:

Fund 300: Québec Pension Plan Fund, administered by Retraite Québec (formerly the Régie des rentes du Québec)

Fund 301: Government and Public Employees Retirement Plan, administered by Retraite Québec (formerly the Commission administrative des régimes de retraite et d'assurances)

Fund 302: Pension Plan of Management Personnel, administered by Retraite Québec (formerly the Commission administrative des régimes de retraite et d'assurances)

Fund 303: Special Plans Fund, administered by Retraite Québec (formerly the Commission administrative des régimes de retraite et d'assurances)

Fund 305: Pension Plan of Elected Municipal Officers (PPEMO), administered by Retraite Québec (formerly the Commission administrative des régimes de retraite et d'assurances)

Fund 306: Régime complémentaire de rentes des techniciens ambulanciers/paramédics et des services préhospitaliers d'urgence – Volets à prestations déterminées, administered by the Comité de retraite

Fund 307: Fonds d'assurance automobile du Québec, administered by the Société de l'assurance automobile du Québec

Fund 311: Supplemental Pension Plan for Employees of the Québec Construction Industry – General Account, administered by the Commission de la construction du Québec

Fund 312: Supplemental Pension Plan for Employees of the Québec Construction Industry – Retirees Account, administered by the Commission de la construction du Québec

Fund 313: Supplemental Pension Plan for Employees of the Québec Construction Industry – Supplementary Account, administered by the Commission de la construction du Québec

Fund 314: Deposit Insurance Fund, administered by the Autorité des marchés financiers

Fund 315: Dedicated account, administered by La Financière agricole du Québec

CONSTITUTION AND NATURE OF OPERATIONS (cont.)

Fund 316: Retirement Plans Sinking Fund – RREGOP (RPSF-RREGOP), administered by the ministère des Finances, Government of Québec

Fund 317: Retirement Plans Sinking Fund – PPMP (RPSF-PPMP), administered by the ministère des Finances, Government of Québec

Fund 318: Retirement Plans Sinking Fund – Others (RPSF-Others), administered by the ministère des Finances, Government of Québec

Fund 326: Crop Insurance Fund, administered by La Financière agricole du Québec

Fund 328: Survivor's Pension Plan, administered by the Secrétariat du Conseil du trésor

Fund 329: Fonds d'assurance-garantie, administered by the Régie des marchés agricoles et alimentaires du Québec

Fund 330: Fonds de la santé et de la sécurité du travail, administered by the Commission des normes, de l'équité, de la santé et de la sécurité du travail (formerly the Commission de la santé et de la sécurité du travail)

Fund 332: Fonds des cautionnements des agents de voyages – cautionnements individuels, administered by the Office de la protection du consommateur

Fund 333: Compensation Fund for Customers of Travel Agents, administered by the Office de la protection du consommateur

Fund 335: Régime complémentaire de rentes des techniciens ambulanciers/paramédics et des services préhospitaliers d'urgence – Fonds 2020, administered by the Comité de retraite

Fund 336: Régime complémentaire de rentes des techniciens ambulanciers/paramédics et des services préhospitaliers d'urgence – Fonds 2030, administered by the Comité de retraite

Fund 337: Régime complémentaire de rentes des techniciens ambulanciers/paramédics et des services préhospitaliers d'urgence – Fonds 2040, administered by the Comité de retraite

Fund 338: Régime complémentaire de rentes des techniciens ambulanciers/paramédics et des services préhospitaliers d'urgence – Fonds 2050, administered by the Comité de retraite

Fund 339: Fonds d'indemnisation des services financiers, administered by the Autorité des marchés financiers (created July 1, 2015)

Fund 340: Régimes de retraite de la Ville de Terrebonne, administered by the Comité de retraite conjoint des Régimes de retraite de la Ville de Terrebonne (created July 1, 2015)

Fund 341: Education and Good Governance Fund – Treasury Fund, administered by the Autorité des marchés financiers (dissolved April 1, 2015)

Fund 342: Régime de retraite de l'Université du Québec, administered by the Comité de retraite du Régime de retraite de l'Université du Québec

Fund 343: Parental Insurance Fund, administered by the Conseil de gestion de l'assurance parentale

Fund 344: Réserve administered by La Financière agricole du Québec (created January 1, 2016)

Fund 347: Régime de retraite du personnel des CPE et des garderies privées conventionnées du Québec, administered by the Investment Committee

Fund 351: Generations Fund, administered by the ministère des Finances, Government of Québec

Fund 353: Superannuation Plan for the Members of the Sûreté du Québec – Participants' Fund (SPMSQ-part.), administered by Retraite Québec (formerly the Commission administrative des régimes de retraite et d'assurances)

Fund 354: Superannuation Plan for the Members of the Sûreté du Québec – Employers' Fund (SPMSQ-empl.), administered by the ministère des Finances, Government of Québec

Fund 361: Pension Plan of the non-teaching Staff of the Commission des écoles catholiques de Montréal, administered by the Secrétariat du Conseil du trésor

Fund 362: Régime de retraite pour certains employés de la Commission scolaire de la Capitale, administered by the Secrétariat du Conseil du trésor

Fund 363: Régime de retraite des employés de la Ville de Laval, administered by the Comité de retraite des employés de la Ville de Laval

Fund 367: Territorial Information Fund, administered by the ministère des Finances, Government of Québec

Fund 368: Education and Good Governance Fund – Capitalized Fund (EGGF-CF), administered by the Autorité des marchés financiers

Fund 369: Accumulated Sick Leave Fund, administered by the ministère des Finances, Government of Québec

CONSTITUTION AND NATURE OF OPERATIONS (cont.)

Fund 371: Accumulated Sick Leave Fund – ARQ, administered by the Agence du revenu du Québec

Fund 372: Fonds commun de placement des régimes de retraite de l'Université Laval, administered by the Comités de retraite

Fund 373: Retirement Plan for Active Members of the Centre hospitalier Côte-des-Neiges, administered by Retraite Québec (formerly the Commission administrative des régimes de retraite et d'assurances)

Fund 374: Fiducie globale Ville de Magog, administered by the Comité de retraite mixte

Fund 376: Régime de retraite des employées et employés de la Ville de Sherbrooke, administered by the Comité de retraite des employées et employés de la Ville de Sherbrooke

Fund 378: Pension Plan of Peace Officers in Correctional Services – Employees' Contribution Fund administered by Retraite Québec (formerly the Commission administrative des régimes de retraite et d'assurances)

Fund 383: Régime complémentaire de retraite des employés réguliers de la Société de transport de Sherbrooke, administered by the Comité de retraite

Fund 384: Régime de retraite des cadres de la Ville de Québec, administered by the Bureau de la retraite (created November 1, 2016)

Fund 385: Régime de retraite des employés manuels de la Ville de Québec, administered by the Bureau de la retraite (created November 1, 2016)

Fund 386: Régime de retraite des fonctionnaires de la Ville de Québec, administered by the Bureau de la retraite (created November 1, 2016)

Fund 387: Régime de retraite du personnel professionnel de la Ville de Québec, administered by the Bureau de la retraite (created November 1, 2016)

Fund 388: Régime de retraite des policiers et policières de la Ville de Québec, administered by the Bureau de la retraite (created November 1, 2016)

Fund 389: Régime de retraite des pompiers de la Ville de Québec, administered by the Bureau de la retraite (created November 1, 2016)

Fund 393: Régime de retraite de la Corporation de l'École Polytechnique, administered by the Comité de retraite

Fund 395: Retirement Plan for the mayors and councillors of municipalities, administered by Retraite Québec (formerly the Commission administrative des régimes de retraite et d'assurances) (created January 1, 2015)

SPECIALIZED PORTFOLIOS

The specialized portfolios consist of common funds in which the individual funds may invest in the form of participation deposits. La Caisse's specialized portfolios are as follows:

- Real Estate (710)
- Equity Markets (737)[1]
- Short Term Investments (740)
- Real Estate Debt (750)[2]
- Bonds (760)[2]
- Real Return Bonds (762)
- Long Term Bonds (764)
- Asset Allocation (771)
- ABTN (772)
- Active Overlay Strategies (773)
- Private Equity (780)
- Infrastructure (782)

1. As part of the Strategic investment planning (SIP), la Caisse recommended to depositors that changes be made to the portfolio offering. Consequently, on January 1, 2016, the specialized equity portfolios (Canadian Equity (720), EAFE Equity (730), U.S. Equity (731), Emerging Markets Equity (732) and Global Quality Equity (736)) were combined into the new Equity Markets (737) specialized portfolio. On that date, all assets and liabilities of the specialized equity portfolios were combined into this new specialized portfolio. This grouping of specialized portfolios did not have any impact on consolidated net assets and on comprehensive income attributable to depositors.
2. As part of the SIP, la Caisse recommended to depositors that changes be made to the portfolio offering. Consequently, on January 1, 2017, the assets and liabilities of the Bonds (760) specialized portfolio and Real Estate Debt (750) specialized portfolio were transferred at fair value to two new specialized portfolios, Rate (765) and Credit (766). On the same date, the Bonds (760) specialized portfolio and the Real Estate Debt (750) specialized portfolio were dissolved. This grouping of specialized portfolios did not have any impact on consolidated net assets or on comprehensive income attributable to depositors.

02
SIGNIFICANT ACCOUNTING POLICIES

STATEMENT OF COMPLIANCE

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). The accounting policies described below have been applied consistently to all reporting periods presented.

PRESENTATION AND MEASUREMENT BASIS

La Caisse measures financial instruments, including investments in unconsolidated subsidiaries, joint ventures, associates and structured entities at fair value through profit or loss. Subsidiaries that solely provide services related to financing activities and administrative and management services are consolidated in accordance with the guidance set out in IFRS 10 – *Consolidated Financial Statements*.

La Caisse's Consolidated Statement of Financial Position is presented based on liquidity.

APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements of la Caisse were approved by the Board of Directors on February 21, 2017.

FUNCTIONAL AND PRESENTATION CURRENCY

La Caisse's consolidated financial statements are presented in Canadian dollars, which is the functional currency.

FOREIGN CURRENCY TRANSLATION

Financial assets and liabilities denominated in a foreign currency are translated into Canadian dollars at the exchange rate in effect at the reporting date. Foreign currency transactions are translated into Canadian dollars at the exchange rate in effect at the transaction date.

Translation differences on investments and investment liabilities are presented under "Net unrealized gains" in the Consolidated Statement of Comprehensive Income. When an investment is sold or investment liability settled, the gain or loss on foreign currency translation is presented under "Net realized gains" in the Consolidated Statement of Comprehensive Income. Translation differences on monetary items are included under "Net gains on financial instruments at fair value" in the Consolidated Statement of Comprehensive Income.

USE OF JUDGMENTS AND ESTIMATES

In preparing la Caisse's consolidated financial statements in accordance with IFRS, management must make judgments, estimates and assumptions that affect the application of the significant accounting policies described below and the amounts reported in the Consolidated Statement of Financial Position and Consolidated Statement of Comprehensive Income.

JUDGMENT

Qualification as an investment entity
Judgment is required when qualifying la Caisse as an investment entity. La Caisse meets the three mandatory criteria of the IFRS 10 definition: 1) Obtain funds from one or more depositors; 2) Commit to its depositors that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and 3) Measure and evaluate the performance of its investments on a fair value basis.

IFRS 10 also suggests four typical characteristics be considered in assessing whether an entity qualifies as an investment entity: 1) Have more than one investment; 2) Have more than one depositor; 3) Have investors that are not related parties; and 4) Have ownership interests in the form of equity or similar interests. Although la Caisse does not satisfy the third typical characteristic of an investment entity because la Caisse and the depositors are related, la Caisse nonetheless qualifies as an investment entity, as management believes that having depositors related to the investment entity does not compromise la Caisse's mission of investing for returns from capital appreciation, investment income, or both, for its depositors.

Fair value hierarchy of financial instruments
Management must use judgment in determining the significance of each input used when establishing the classification into the fair value hierarchy, as explained in Note 7.

Interests in entities
Management must use judgment in determining whether la Caisse has control, joint control or significant influence over certain entities, as explained in Note 17, and over the holding of interests in structured entities. Judgment on the relationship between la Caisse and any entity in which la Caisse holds an interest is exercised upon initial investment and must be reassessed when facts and circumstances indicate that there are one or more changes to the elements of control.

SIGNIFICANT ACCOUNTING POLICIES (cont)

La Caisse holds interests in a structured entity when voting or similar rights are not the dominant factor in deciding who controls the entity.

La Caisse controls a subsidiary, including a structured entity, only if the IFRS 10 criteria are met: 1) It has decision-making authority regarding the entity's relevant activities; 2) It has exposure or rights to variable returns from its involvement with the entity; and 3) It has the ability to use its power to affect the amount of the returns. When management determines decision-making authority, several factors are taken into account, including the existence and effect of actual and potential voting rights held by la Caisse that are exercisable, the holding of instruments that are convertible into voting shares, the existence of contractual agreements through which the relevant activities of the entity can be directed, as well as other circumstances that affect decision-making.

La Caisse has significant influence over an associate when it has the power to participate in the financial and operating policy decisions of the entity. It is deemed to have significant influence when it holds 20% or more of the voting rights of an entity but does not have control or joint control. La Caisse has joint control over a joint venture when there is a contractual or implicit arrangement whereby decisions about relevant activities require the unanimous consent of the parties sharing control and when these parties have rights to the net assets of the arrangement.

ESTIMATES AND ASSUMPTIONS

The main estimates and assumptions, which are presented in Note 7, involve the fair value measurement of investments and investment liabilities classified in Level 3 of the fair value hierarchy. Actual values may differ from the estimated values.

FINANCIAL INSTRUMENTS

La Caisse's financial instruments include cash, amounts receivable from transactions being settled, advances to depositors, accrued and receivable investment income, investments, amounts payable on transactions being settled, other financial liabilities, investment liabilities and net assets attributable to depositors.

CLASSIFICATION AND MEASUREMENT

Financial instruments are classified by category based on their nature and characteristics. Management determines classification upon initial recognition, which is the acquisition date. All of la Caisse's financial instruments are designated at fair value through profit or loss and measured at fair value, except for derivative financial instruments and securities sold short, which must be classified as held for trading and are measured at fair value. Management elected to designate all other financial instruments at fair value through profit or loss given that these instruments are managed and their performance evaluated on a fair value basis.

Financial instruments are initially and subsequently recognized at fair value. Changes in the fair value of financial instruments are presented under "Net unrealized gains" in the Consolidated Statement of Comprehensive Income. Investment income and investment expense are presented under "Net investment income" in the Consolidated Statement of Comprehensive Income.

FAIR VALUE MEASUREMENT

Fair value is defined as the price that would be received on the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Upon initial recognition, the best evidence of the fair value of a financial instrument is the transaction price, which is the fair value of the consideration received or given. Subsequently, the fair value of financial instruments is obtained using quoted prices in active markets. When there are no quoted prices, fair value is determined using valuation techniques based on observable and unobservable inputs. La Caisse applies appropriate valuation techniques based on a financial instrument's characteristics, the availability of inputs, and the assumptions that would be used by market participants, focusing on maximizing the use of relevant observable inputs while minimizing the use of unobservable inputs. The valuation techniques are applied consistently. Fair value information is provided in Note 7.

Cash
Cash is the cash deposited with recognized financial institutions and bears interest at market rates.

Investments
Investments include cash equivalents, fixed-income securities, variable-income securities, interests in unconsolidated subsidiaries and derivative financial instruments.

Cash equivalents include securities purchased under reverse repurchase agreements. These securities meet the definition of cash equivalents because they are used for cash management purposes, are readily convertible into a known amount of cash, have negligible risk of fair value changes and have initial maturities of three months or less. These financial instruments bear interest at market rates.

SIGNIFICANT ACCOUNTING POLICIES (cont)

Fixed-income securities include short-term investments, securities purchased under reverse repurchase agreements, corporate receivables, bonds and asset-backed term notes (ABTNs). Purchases and sales of fixed-income securities are recorded at the transaction date.

Variable-income securities include the equities and convertible securities of public companies, private companies, including private investment funds and infrastructure funds, as well as hedge funds. Purchases and sales of equities, convertible securities and hedge funds are recorded at the transaction date, whereas purchases and sales of private investment funds and infrastructure funds are recorded at the settlement date.

Interests in unconsolidated subsidiaries represent la Caisse's investment in controlled entities that are not consolidated under IFRS 10. La Caisse's investment in these entities may be in the form of equities or debt instruments.

Investment liabilities
Investment liabilities include securities sold under repurchase agreements, securities sold short, commercial paper payable, loans payable, term notes payable and derivative financial instruments.

Securities sold short are commitments made by la Caisse to purchase securities from third parties to cover its positions. La Caisse may short-sell equities and bonds.

Derivative financial instruments
In managing its investments, la Caisse conducts transactions involving various derivative financial instruments to manage the risks associated with exchange rate, interest rate and market fluctuations. Derivative financial instruments whose fair value is favourable are presented under "Investments" in the Consolidated Statement of Financial Position, while those whose fair value is unfavourable are presented under "Investment liabilities" in the Consolidated Statement of Financial Position.

La Caisse does not use hedge accounting but may use derivative financial instruments to economically hedge certain financial risks. When la Caisse identifies a hedging relationship, the realized gains or losses on the derivative financial instrument corresponding to the hedging relationship are reclassified as investment income or expense arising from the economically hedged instrument.

Transactions being settled
Transactions with counterparties for the sale or purchase of securities that have not yet been settled at the reporting date are presented respectively under "Amounts receivable from transactions being settled" and "Amounts payable on transactions being settled" in the Consolidated Statement of Financial Position.

DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES

La Caisse derecognizes financial assets when all of the contractual rights to the assets have expired or when the contractual rights to receive the cash flows from the financial assets have been transferred and when la Caisse has transferred substantially all of the risks and rewards of the financial asset such that it no longer retains control over the asset. If la Caisse considers that it retains substantially all of the risks and rewards of a transferred financial asset, that asset is not derecognized from the Consolidated Statement of Financial Position and, if appropriate, a corresponding financial liability is recorded. Financial assets that have been transferred but not derecognized are presented in Note 14. Financial liabilities are derecognized when the related obligation is discharged, cancelled or expired.

Securities purchased under reverse repurchase agreements and sold under repurchase agreements
La Caisse enters into transactions to purchase and sell securities, i.e., short-term investments and bonds, that it agrees to resell to or repurchase from the counterparty at a future date.

The purchased securities are not recognized in the Consolidated Statement of Financial Position because the counterparty retains the risks and rewards of the securities. The cash amounts disbursed are derecognized, and a corresponding asset is recorded in investments under "Securities purchased under reverse repurchase agreements."

The sold securities are not derecognized from the Consolidated Statement of Financial Position because la Caisse retains the risks and rewards of the securities. The cash amounts received are recognized, and a corresponding liability is recorded in investment liabilities under "Securities sold under repurchase agreements."

The difference between the purchase price and the resale price as well as the difference between the sale price and the repurchase price are respectively recorded as interest income and interest expense calculated using the effective interest method and are presented under "Investment income" and "Investment expense" in the Consolidated Statement of Comprehensive Income.

Lending and borrowing of securities
La Caisse conducts securities lending and borrowing transactions involving equities. These transactions are generally guaranteed by the securities received from the counterparties or pledged by la Caisse, respectively. Loaned securities are not derecognized from, and borrowed securities are not recognized in, the Consolidated Statement of Financial Position because la Caisse or the counterparty, respectively, retains the risks and rewards of the securities. Income and expenses resulting from securities lending and borrowing transactions are presented under "Investment income" and "Investment expense," respectively, in the Consolidated Statement of Comprehensive Income.

SIGNIFICANT ACCOUNTING POLICIES (cont)

NET ASSETS ATTRIBUTABLE TO DEPOSITORS

Net assets attributable to depositors consist of demand deposits, term deposits, distributions payable to depositors and participation deposits.

Demand deposits and term deposits
Demand deposits bear interest at a variable rate and are repayable on demand. Term deposits bear interest at a fixed or variable rate and are repayable at maturity. Demand deposits and term deposits represent la Caisse's indebtedness towards the depositors in accordance with the *Regulation respecting the terms and conditions of deposits, funds and portfolios of the Caisse de dépôt et placement du Québec* (Regulation).

Distributions payable to depositors
Under the Regulation, distributions payable to depositors represent the net income or net loss arising from the specialized portfolios as well as the net realized gains or losses upon cancellation of the participation units of specialized portfolios held by the individual funds that are recorded at the end of the month and that are paid into the demand deposit accounts of depositors at the beginning of the following month. Distributions may also be made through the issuance of participation deposit units of individual funds.

Participation deposits
Participation deposits are expressed in participation units for each individual fund. Each participation unit gives the holder an interest in the fund's net assets. The per-unit value of the net assets is determined by dividing the individual fund's net assets by the number of outstanding units. Depositors can purchase or cancel participation deposit units at that value at the beginning of each month. The difference between the proceeds of cancellation and the carrying value at issuance is recovered in the depositor's demand deposit account. In addition, holders of participation deposit units are entitled to receive distributions. Participation deposit units are financial instruments defined as depositor's equity in the Regulation and are subordinate to all other categories of financial liabilities.

NET INCOME

DIVIDEND AND INTEREST INCOME AND EXPENSE

Dividend income is recognized when la Caisse obtains the right to the dividend, generally on the ex-dividend date. Dividend expense from equities sold short is recorded when the shareholders obtain the right to the dividend.

Interest income and expense are recorded using the effective interest method. Interest income and expense include the amortization of the premium or discount.

Dividend and interest income and expense are presented, respectively, under "Investment income" and "Investment expense" in the Consolidated Statement of Comprehensive Income.

EXTERNAL MANAGEMENT FEES

External management fees are amounts paid to external financial institutions, mainly institutional fund managers active in international stock markets, for the management of funds owned by la Caisse. The base fees and performance-related fees of external managers are presented under "Investment expense" and "Net realized gains," respectively, in the Consolidated Statement of Comprehensive Income.

INCOME TAX

Under federal and provincial income tax legislation, la Caisse is exempt from income tax in Canada. Income from foreign affiliates is subject to withholding taxes in certain countries. Withholding taxes are presented under "Net investment income" in the Consolidated Statement of Comprehensive Income.

OPERATING EXPENSES

Operating expenses consist of all the expenses incurred to manage and administer la Caisse's investments and are presented separately in the Consolidated Statement of Comprehensive Income.

NET GAINS ON FINANCIAL INSTRUMENTS AT FAIR VALUE

When investments are sold, the realized gains and losses are determined on a first in, first out basis. Gains and losses realized on investments represent the difference between net realizable value and acquisition cost. Gains and losses realized on investment liabilities represent the difference between settlement value and value at initial recognition. Gains and losses realized on derivative financial instruments represent the payments and receipts on these financial instruments. Realized gains and losses are presented under "Net realized gains" in the Consolidated Statement of Comprehensive Income. Transaction costs directly attributable to the acquisition, sale and issuance of a financial instrument are presented under "Net realized gains" in the Consolidated Statement of Comprehensive Income. Transaction costs include commissions, stock exchange fees as well as professional and legal fees related to investing and financing activities.

SIGNIFICANT ACCOUNTING POLICIES (cont)

Unrealized gains and losses include the net changes in the fair value of investments and investment liabilities for the year as well as the reversal of prior-year unrealized gains and losses that were realized during the year. Unrealized gains and losses are presented under "Net unrealized gains" in the Consolidated Statement of Comprehensive Income.

DISTRIBUTIONS TO DEPOSITORS

Under the Regulation, distributions to depositors consist of the annual net income or loss from the specialized portfolios as well as the net gains or losses realized on the cancellation of participation units of the specialized portfolios held by the individual funds. Distributions to depositors are recorded as finance costs and presented separately in the Consolidated Statement of Comprehensive Income.

03
NEW IFRS STANDARDS

No issued or amended standard that took effect during the year had an impact on the consolidated financial statements.

ISSUED AS AT DECEMBER 31, 2016 BUT NOT YET EFFECTIVE

IAS 7 – Statement of Cash Flows: Effective date – January 1, 2017
In January 2016, the IASB issued amendments to IAS 7 – *Statement of Cash Flows*. The amendments include disclosure requirements that will enable financial statement users to evaluate changes in liabilities arising from financing activities. The IASB has authorized early adoption of these new requirements. This new standard is to be applied prospectively as of its effective date. The impact of adopting this standard is being examined.

IFRS 15 – Revenue from Contracts with Customers: Effective Date – January 1, 2018
In May 2014, the IASB issued a new standard, IFRS 15 – *Revenue from Contracts with Customers*, which will replace the current revenue recognition standards and interpretations. IFRS 15 provides a single comprehensive model to use when recognizing revenue arising from contracts with customers. The new model applies to all contracts with customers except those that are within the scope of other IFRS standards such as leases, insurance contracts and financial instruments. This new standard is to be applied retrospectively as of its effective date. The impact of adopting this standard is being examined.

IFRS 9 – Financial Instruments: Effective Date – January 1, 2018
In July 2014, the IASB issued the final version of IFRS 9 – *Financial Instruments*, which will replace IAS 39 – *Financial Instruments: Recognition and Measurement*. IFRS 9 addresses the classification and measurement of financial assets and financial liabilities as well as the impairment of financial assets and hedge accounting.

IFRS 9 provides a single model for financial asset classification and measurement that is based on contractual cash flow characteristics and on the business model for holding financial assets. With respect to measuring financial liabilities designated at fair value through profit or loss, the standard prescribes that fair value changes attributable to an entity's own credit risk be accounted for in other comprehensive income unless such a treatment would create or increase an accounting mismatch in net income.

IFRS 9 also introduces a new impairment model for financial assets not measured at fair value through profit or loss that requires recognition of expected credit losses rather than incurred losses as applied under the current standard. As for the new hedge accounting model, it provides better alignment of hedge accounting with risk management activities.

The IASB has authorized early adoption of these new requirements. In general, this new standard is to be applied retrospectively as of its effective date. The impact of adopting this standard is being examined.

IFRS 16 – Leases: Effective Date – January 1, 2019
In December 2015, the IASB issued a new standard, IFRS 16 – *Leases*, which will replace the current standard and interpretations on lease accounting. IFRS 16 establishes a single lease accounting model for lessees. Under this model, lessees recognize most leases on the Consolidated Statement of Financial Position. This new standard is to be applied retrospectively as of its effective date. The impact of adopting this standard is being examined.

04
INVESTMENTS AND INVESTMENT LIABILITIES

A) INVESTMENTS

The following tables present the fair values and costs of the investments. The geographic allocation is determined according to the country of the issuer's principal place of business. The allocation of interests in unconsolidated subsidiaries is determined according to the country of the underlying investments, while the allocation of derivative financial instruments is determined according to the currency in which the instrument will be settled:

			December 31, 2016	
	Canada	Foreign	Fair value	Cost
Investments				
Cash equivalents				
Securities purchased under reverse repurchase agreements	998	242	**1,240**	**1,240**
Total cash equivalents	998	242	**1,240**	**1,240**
Fixed-income securities				
Short-term investments	649	157	**806**	**821**
Securities purchased under reverse repurchase agreements	5,895	3,597	**9,492**	**9,504**
Corporate receivables	1,280	1,212	**2,492**	**2,393**
Bonds				
Governments	46,704	6,925	**53,629**	**53,945**
Government corporations and other public administrations	5,488	748	**6,236**	**5,927**
Corporate sector	11,410	6,612	**18,022**	**17,328**
Bond funds	–	1,292	**1,292**	**1,000**
ABTNs	3,970	–	**3,970**	**4,057**
Total fixed-income securities	75,396	20,543	**95,939**	**94,975**
Variable-income securities				
Equities and convertible securities				
Public companies	31,569	76,980	**108,549**	**87,435**
Private companies	1,898	11,395	**13,293**	**11,721**
Hedge funds	–	2,467	**2,467**	**1,656**
Total variable-income securities	33,467	90,842	**124,309**	**100,812**
Interests in unconsolidated subsidiaries				
Investments in real estate holdings	18,292	23,055	**41,347**	**23,316**
Investments in real estate debt	11,559	–	**11,559**	**11,223**
Private equity investments	3,053	10,453	**13,506**	**10,124**
Infrastructure investments	1,121	10,379	**11,500**	**9,533**
Other investments	880	7,499	**8,379**	**7,857**
Total interests in unconsolidated subsidiaries	34,905	51,386	**86,291**	**62,053**
Derivative financial instruments *(Note 6)*	4	1,092	**1,096**	**37**
Total investments	144,770	164,105	**308,875**	**259,117**

INVESTMENTS AND INVESTMENT LIABILITIES (cont.)

	December 31, 2015			
	Canada	Foreign	Fair value	Cost
Investments				
Cash equivalents				
Securities purchased under reverse repurchase agreements	2,245	–	2,245	2,245
Total cash equivalents	2,245	–	2,245	2,245
Fixed-income securities				
Short-term investments	744	140	884	893
Securities purchased under reverse repurchase agreements	2,742	3,700	6,442	6,436
Corporate receivables	1,277	1,727	3,004	2,811
Bonds				
Governments	48,259	4,624	52,883	51,404
Government corporations and other public administrations	6,511	672	7,183	6,929
Corporate sector	11,970	7,059	19,029	17,746
Bond funds	–	718	718	699
ABTNs	4,612	–	4,612	4,747
Total fixed-income securities	76,115	18,640	94,755	91,665
Variable-income securities				
Equities and convertible securities				
Public companies	27,610	68,894	96,504	75,495
Private companies	2,258	11,774	14,032	11,636
Hedge funds	24	3,660	3,684	2,615
Total variable-income securities	29,892	84,328	114,220	89,746
Interests in unconsolidated subsidiaries				
Investments in real estate holdings	17,410	21,289	38,699	21,601
Investments in real estate debt	10,982	–	10,982	10,770
Private equity investments	2,262	7,628	9,890	6,309
Infrastructure investments	858	10,245	11,103	9,091
Other investments	397	3,369	3,766	3,309
Total interests in unconsolidated subsidiaries	31,909	42,531	74,440	51,080
Derivative financial instruments *(Note 6)*	150	1,035	1,185	172
Total investments	140,311	146,534	286,845	234,908

EQUITIES IN GROWTH MARKETS

La Caisse was granted Qualified Foreign Institutional Investor status and obtained an investment quota to access the Chinese capital markets. Although la Caisse has a long-term investment strategy, it must meet the conditions set by the regulatory authorities in the event of a repatriation of invested capital. As at December 31, 2016, the fair value of investments in securities amounted to $1,353 million ($1,362 million as at December 31, 2015).

INVESTMENTS AND INVESTMENT LIABILITIES (cont.)

B) INVESTMENT LIABILITIES

The following tables present the fair values and costs of the investment liabilities. The geographic allocation of non-derivative financial liabilities is determined using the country of the issuer's principal place of business, while the allocation of derivative financial instruments is determined according to the currency in which the instrument will be settled:

			December 31, 2016	
	Canada	Foreign	Fair value	Cost
Investment liabilities				
Non-derivative financial liabilities				
Securities sold under repurchase agreements	15,548	6,007	**21,555**	**21,568**
Securities sold short				
Equities	321	9	**330**	**241**
Bonds	1,088	4,258	**5,346**	**5,456**
Commercial paper payable	4,813	–	**4,813**	**4,750**
Loans payable	–	189	**189**	**190**
Term notes payable	9,574	–	**9,574**	**7,295**
Total non-derivative financial liabilities	31,344	10,463	**41,807**	**39,500**
Derivative financial instruments *(Note 6)*	73	1,010	**1,083**	**26**
Total investment liabilities	31,417	11,473	**42,890**	**39,526**

			December 31, 2015	
	Canada	Foreign	Fair value	Cost
Investment liabilities				
Non-derivative financial liabilities				
Securities sold under repurchase agreements	14,575	3,921	18,496	18,488
Securities sold short				
Equities	809	1,052	1,861	1,433
Bonds	22	4,306	4,328	4,099
Commercial paper payable	3,775	–	3,775	3,669
Loans payable	–	116	116	116
Term notes payable	9,899	–	9,899	7,293
Total non-derivative financial liabilities	29,080	9,395	38,475	35,098
Derivative financial instruments *(Note 6)*	440	2,124	2,564	137
Total investment liabilities	29,520	11,519	41,039	35,235

05
ALLOCATION OF NET ASSETS ATTRIBUTABLE TO DEPOSITORS

The following table presents the allocation of net assets attributable to depositors according to la Caisse's total specialized portfolios offering:

	December 31, 2016	December 31, 2015
Fixed income		
Short Term Investments	**6,157**	4,584
Bonds	**68,075**	67,860
Long Term Bonds	**2,640**	2,390
Real Estate Debt	**11,553**	11,300
Real Return Bonds	**1,087**	1,090
	89,512	87,224
Real assets		
Infrastructure	**14,640**	12,957
Real Estate	**31,721**	26,955
	46,361	39,912
Equities		
Equity Markets[1]	**101,272**	91,454
Private Equity	**30,387**	26,099
	131,659	117,553
Other investments		
Asset Allocation	**1,370**	1,810
ABTN	**241**	102
Active Overlay Strategies	**626**	454
	2,237	2,366
Customized strategies of individual funds[2] and cash activities	**977**	970
Net assets attributable to depositors	**270,746**	248,025

1. On January 1, 2016, the specialized equity portfolios were combined into the new Equity Markets specialized portfolio. Consequently, the portfolio offering as at December 31, 2015 has therefore been presented to reflect this grouping of specialized portfolios.
2. The customized strategies consist of direct holdings of derivative financial instruments by the individual funds for the customized management of the desired exposure by each depositor.

06
DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are financial contracts whose value fluctuates according to an underlying item, which require very little or no initial investment and are settled at a future date. The underlying item may be of a financial nature (interest rate, foreign currency or stock market security or index) or may be a commodity (precious metal, produce or oil). Certain derivative financial instruments are settled through clearing houses. La Caisse uses, among others, the derivative financial instruments described below.

Forward contracts are commitments that enable the purchase or sale of an underlying item, the quantity and price of which are determined in the contract, which includes a predetermined maturity date. Forward contracts have customized terms and conditions negotiated directly between the parties on the over-the-counter market. Futures contracts have terms and conditions determined by an exchange market.

Options are contracts traded on over-the-counter or exchange markets and that give the purchaser the right, but not the obligation, to buy or sell a given amount of an underlying security, index or commodity at a strike price stipulated in advance, either at a determined future date or at any time before a specified maturity date.

Swaps are derivatives traded on over-the-counter markets whereby two parties agree to exchange a series of cash flows according to predetermined conditions that include a notional amount, payment dates and a term to maturity.

Warrants are contracts traded on over-the-counter or exchange markets that enable the purchase of an underlying item, the price of which is determined in the contract, which includes a predetermined maturity date.

The notional amount is the amount to which a rate or price is applied to determine the amounts of cash flows to be exchanged periodically.

DERIVATIVE FINANCIAL INSTRUMENTS (cont.)

The following table presents the fair values and the notional amounts of the derivative financial instruments held by la Caisse:

	December 31, 2016			December 31, 2015		
	Fair value			Fair value		
	Assets	Liabilities	Notional amount	Assets	Liabilities	Notional amount
Exchange markets						
Interest rate derivatives						
Futures contracts	–	–	67,694	–	–	41,548
Equity derivatives						
Futures contracts	–	–	14,518	–	–	5,944
Options	–	–	93	29	20	1,610
Warrants	5	–	19	3	–	40
Commodity derivatives						
Futures contracts	1	1	156	–	–	115
Options	6	1	275	1	1	426
Total exchange markets	12	2	82,755	33	21	49,683
Over-the-counter markets						
Interest rate derivatives						
Swaps	161	–	1,703	502	403	16,293
Swaps settled through a clearing house	–	–	52,067	–	–	42,445
Options	–	–	–	45	27	17,130
Currency derivatives						
Swaps	94	64	1,192	29	171	3,212
Forward contracts[1]	605	674	66,169	450	1,769	59,625
Options	49	42	2,326	20	12	2,136
Credit default derivatives						
Swaps	–	–	–	–	–	42
Swaps settled through a clearing house	–	–	2,548	–	–	–
Equity derivatives						
Swaps	175	301	11,530	106	161	6,986
Warrants	–	–	3	–	–	3
Total over-the-counter markets	1,084	1,081	137,538	1,152	2,543	147,872
Total derivative financial instruments	1,096	1,083	220,293	1,185	2,564	197,555

1. When foreign exchange risk management transactions involve simultaneous use of the U.S. dollar and other currencies, the notional amount is presented on a gross basis. As at December 31, 2016, contracts involving simultaneous use of the U.S. dollar and other currencies total $12,959 million ($14,395 million as at December 31, 2015).

07
FAIR VALUE MEASUREMENT

A) THE POLICY, DIRECTIVE, PROTOCOLS AND PROCEDURES RELATED TO FAIR VALUE MEASUREMENT

La Caisse's valuation procedures are governed by the Caisse Investment Valuation Policy, which is approved by the Board of Directors. This general policy is further supported by the valuation directive and the protocols that stipulate valuation methodology is to be applied to each type of investment held by la Caisse. The policy, directive and protocols also establish governance for the valuation and reporting process. Application of the policy is the responsibility of the Valuation Committee, which reports to the Executive Committee and is supported by a valuation team. The Valuation Committee approves the directive, compliance with the policy, and the fair values determined semi-annually. It then recommends these fair values to the Audit Committee. For valuations of private equity investments and infrastructure investments, the policy provides for an external review of substantially all the fair values of these investments over a four-year period. An external review includes a valuation by independent valuators or an observation of comparable transactions in the market.

The policy also includes directives to be followed when using prices from external sources such as broker quotes and net asset values provided by external administrators of the funds or general partners.

When fair value is determined by external valuators or third parties, the Valuation Committee verifies the qualifications, experience and independence of these parties. It also reviews the valuation techniques, the significant inputs used in calculating fair value, and the results and conclusions to ensure that they are in compliance with recognized valuation standards.

In addition, to ensure the reasonableness of the fair value determined, la Caisse may conduct backtesting, compare the established fair value with values of comparable transactions, including the values of comparable public companies, and rely on the services of external valuators.

B) FAIR VALUE VALUATION TECHNIQUES

The following paragraphs describe the main valuation techniques used to measure la Caisse's financial instruments.

SHORT-TERM INVESTMENTS, SECURITIES PURCHASED UNDER REVERSE REPURCHASE AGREEMENTS, CORPORATE RECEIVABLES, SECURITIES SOLD UNDER REPURCHASE AGREEMENTS, COMMERCIAL PAPER PAYABLE, LOANS PAYABLE AND TERM NOTES PAYABLE

The fair value of these financial assets and liabilities is determined using a discounted cash flow technique that primarily uses observable inputs such as the interest rate curves and credit spreads that make up the discount rates.

BONDS

The fair value of bonds is determined using prices published by brokers in active markets for identical or similar instruments. The fair value of bonds that have no published prices is determined using either a discounted cash flow technique or broker quotes. Discounted cash flow valuations use observable and unobservable inputs such as the interest rate curves and credit spreads that make up the discount rates. La Caisse may also use information about recent transactions carried out in the market for valuations of private company bonds.

Bond funds

The fair value of bond funds is determined using the net assets provided by the administrator, unless there is an indication that it differs from the provided value of the net assets. La Caisse ensures that the valuation techniques used by the fund administrator to determine the fair value of the net assets are in compliance with IFRS.

ABTNs

As at December 31, 2016, the fair value of the MAV 1 ABTNs was determined based on the settlement amount received in January 2017. As at December 31, 2015, the fair value of the MAV 1 ABTNs and of certain ABTNs excluded from the restructuring agreement was determined according to a recognized financial model. This technique uses observable and unobservable inputs such as credit spreads, correlation factors and illiquidity premiums. These values are based on observable inputs for similar financial instruments but are adjusted significantly to reflect the specific characteristics of the instrument.

The fair value of the other ABTNs is determined primarily on the basis of external valuations received from the administrator of the trusts and broker quotes that result from recognized financial models.

FAIR VALUE MEASUREMENT (cont.)

EQUITIES AND CONVERTIBLE SECURITIES

Public companies
The fair value of equities and convertible securities of public companies is determined based on closing prices observed on major stock exchanges, which represent the active market.

Private companies
The fair value of equities of private equity investment companies is primarily determined according to the comparable company multiples technique. La Caisse identifies comparable companies based on their industry, size, financial position and strategy and calculates an appropriate multiple for each comparable company identified. This technique uses observable and unobservable inputs such as earnings before interest, taxes, depreciation and amortization (EBITDA) multiples and price-to-book value ratios.

The fair value of equities of private infrastructure investment companies is primarily determined using discounted cash flow technique. This technique uses observable and unobservable inputs such as discount rates that take into account the risk associated with the investment as well as future cash flows.

La Caisse may also use information about recent transactions carried out in the market for valuations of private equity investments and infrastructure investments.

The fair value of private investment funds and infrastructure funds is determined based on the fair value of the net assets in the most recent financial statements provided by the general partner. La Caisse ensures that the valuation techniques used to determine the fair value of the net assets are in compliance with IFRS. Moreover, the fair value of net assets is adjusted to reflect the purchases and sales of fund units carried out between the fund's financial statement date and the valuation date or when other judgmental factors indicate that this value differs from the fair value provided by the general partner.

Certain valuations of private companies are reviewed semi-annually by an independent external firm.

Hedge funds
The fair value of hedge funds is determined according to the net assets provided by the administrator, unless there is an indication that it differs from the value of the net assets provided. La Caisse ensures that the valuation techniques used by the fund administrator to determine the fair value of the net assets are in compliance with IFRS.

INTERESTS IN UNCONSOLIDATED SUBSIDIARIES

The fair value of la Caisse's interests in various unconsolidated subsidiaries is determined using an enterprise valuation technique.

Investments in real estate holdings
The fair value resulting from the enterprise value technique is determined using a commonly used method, i.e., the comparable company multiples method, which is supported by observable and unobservable inputs such as the price-to-book value ratio. This value is determined annually by an independent external firm. Enterprise value reflects, among other things, the fair value of the assets and liabilities held directly by these subsidiaries, which include investment property, other real estate investments, liabilities associated with investment property, as well as the fair value resulting from the quality of the portfolio and the integrated management of the platform of these subsidiaries.

The fair value of interests in the form of debt instruments in these subsidiaries is determined using the discounted cash flow technique, which is supported mainly by observable inputs such as the interest rates and credit spreads that make up the discount rates.

The fair value of investment property, which is measured according to the highest and best use, is determined and certified semi-annually by external, recognized and independent chartered real estate appraisers. Valuations are carried out in compliance with the valuation standards in effect in each market. The valuation techniques used are based primarily on two recognized methodologies, namely, the discounted cash flow technique and the capitalization of future cash flows. These techniques use observable and unobservable inputs such as lease terms and conditions, operating expenses, residual value and rates of return, discount rates and capitalization rates. Values observed for comparable transactions are used to determine the representative fair value range and support the fair value determined. The fair values of real estate investment funds and of public company equities included in other real estate investments are determined, respectively, based on the fair value provided by the general partner or the administrator and on the closing prices observed on major stock exchanges. The fair value of financial liabilities associated with investment property is determined based on the discounted cash flow technique. This technique uses observable and unobservable inputs such as the interest rates and credit spreads that make up the discount rates.

FAIR VALUE MEASUREMENT (cont.)

Investments in real estate debt
Enterprise value reflects the fair value of the assets held directly by these subsidiaries, which primarily include commercial mortgages. The fair value of interests in these subsidiaries corresponds to the net assets in the audited financial statements.

The fair value of interests in the form of debt instruments in these subsidiaries is determined using the discounted cash flow technique. This valuation primarily uses observable inputs such as the interest rates and credit spreads that make up the discount rates.

The fair value of commercial mortgages is determined using the discounted cash flow technique and are divided into risk categories, according to the loan-to-value ratio, and for which an appropriate discount rate is determined. Commercial mortgage valuations are reviewed semi-annually by an independent external firm.

Private equity investments, infrastructure investments and other investments
The enterprise value is determined using the same valuation techniques as those used to determine the fair value of bonds, corporate receivables, equities of private companies, and hedge funds as described above.

SECURITIES SOLD SHORT

The fair value of bonds and equities that are sold short is determined using the fair value of the security that is sold short. The techniques for valuing these securities have been described above.

DERIVATIVE FINANCIAL INSTRUMENTS

The fair value of derivative financial instruments is determined according to the type of derivative financial instrument. The fair value of derivative financial instruments traded on exchange markets and settled through a clearing house is determined, respectively, using the prices on the major stock exchanges representing the active market and clearing house prices. The fair value of derivative financial instruments traded on over-the-counter markets is determined using recognized and commonly used valuation techniques such as the discounted cash flow technique or other financial models. These techniques require the development and use of assumptions that take into account observable and unobservable inputs such as the interest rate curves and credit spreads that make up the discount rates as well as foreign exchange rate curves, prices of the underlying, and volatility.

NET ASSETS ATTRIBUTABLE TO DEPOSITORS

Demand deposits
The fair value of demand deposits is determined based on their nominal value, as they are repayable at any time at the option of the issuer without penalty.

Term deposits and distributions payable to depositors
The fair value of term deposits and distributions payable to depositors is determined using the discounted cash flow technique. This valuation technique mainly uses observable inputs such as the interest rate curves and credit spreads that make up the discount rates.

Participation deposits
The fair value of depositor participation deposits stems from a valuation of all the financial assets and liabilities held by la Caisse.

C) FAIR VALUE HIERARCHY

La Caisse's financial instruments at fair value through profit or loss are classified according to the below-described fair value hierarchy, based on the lowest level of significant input used in measuring fair value.

Level 1: The fair value calculation of the financial instrument is based on quoted prices (unadjusted) in active markets that the entity can access at the measurement date for identical assets or liabilities.

Level 2: The fair value of the financial instrument is calculated using valuation techniques for which the significant inputs are observable, either directly or indirectly.

Level 3: The fair value of the financial instrument is calculated using valuation techniques for which the significant inputs are unobservable. This level includes financial instruments whose valuation is based on prices observed for similar financial instruments, substantially adjusted to reflect the characteristics specific to the financial instrument being measured and available market data.

Classification into the fair value hierarchy levels is determined upon initial measurement of the financial instrument and is reviewed on each subsequent measurement date. Transfers between levels of the fair value hierarchy are measured at fair value at the beginning of each fiscal year.

FAIR VALUE MEASUREMENT (cont.)

The following tables present an allocation of the fair value of financial instruments into the three levels of the fair value hierarchy:

	December 31, 2016			
	Level 1	Level 2	Level 3	Total
Financial assets				
Amounts receivable from transactions being settled	–	3,898	–	3,898
Advances to depositors	–	1,068	–	1,068
Investment income, accrued and receivable	–	1,173	–	1,173
Investments				
Cash equivalents	–	1,240	–	1,240
Short-term investments	–	806	–	806
Securities purchased under reverse repurchase agreements	–	9,492	–	9,492
Corporate receivables	–	2,484	8	2,492
Bonds	–	77,804	1,375	79,179
ABTNs	–	–	3,970	3,970
Equities and convertible securities				
Public companies	108,134	415	–	108,549
Private companies	–	187	13,106	13,293
Hedge funds	–	1,957	510	2,467
Interests in unconsolidated subsidiaries				
Investments in real estate holdings	–	9,540	31,807	41,347
Investments in real estate debt	–	9,285	2,274	11,559
Private equity investments	–	383	13,123	13,506
Infrastructure investments	–	–	11,500	11,500
Other investments	–	7,088	1,291	8,379
Derivative financial instruments	2	1,094	–	1,096
	108,136	127,914	78,964	315,014
Financial liabilities excluding net assets attributable to depositors				
Amounts payable on transactions being settled	–	1,687	–	1,687
Other financial liabilities	–	536	–	536
Investment liabilities				
Securities sold under repurchase agreements	–	21,555	–	21,555
Securities sold short	321	5,346	9	5,676
Commercial paper payable	–	4,813	–	4,813
Loans payable	–	189	–	189
Term notes payable	–	9,574	–	9,574
Derivative financial instruments	1	1,010	72	1,083
	322	44,710	81	45,113
Net assets attributable to depositors				
Demand deposits	–	728	–	728
Term deposits	–	6	–	6
Distributions payable to depositors	–	1,373	–	1,373
Participation deposits	–	268,639	–	268,639
	–	270,746	–	270,746

TRANSFERS BETWEEN LEVELS OF THE FAIR VALUE HIERARCHY

During the year ended December 31, 2016, due to changes in the availability of observable inputs given changing market conditions, financial instruments with a value of $200 million were transferred from Level 3 to Level 2 and of $683 million from Level 2 to Level 3.

FAIR VALUE MEASUREMENT (cont.)

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
Financial assets				
Amounts receivable from transactions being settled	–	1,288	–	1,288
Advances to depositors	–	776	–	776
Investment income, accrued and receivable	–	1,226	–	1,226
Investments				
Cash equivalents	–	2,245	–	2,245
Short-term investments	–	882	2	884
Securities purchased under reverse repurchase agreements	–	6,442	–	6,442
Corporate receivables	–	2,996	8	3,004
Bonds	–	78,596	1,217	79,813
ABTNs	–	–	4,612	4,612
Equities and convertible securities				
Public companies	96,261	243	–	96,504
Private companies	–	561	13,471	14,032
Hedge funds	–	3,120	564	3,684
Interests in unconsolidated subsidiaries				
Investments in real estate holdings	–	11,701	26,998	38,699
Investments in real estate debt	–	8,762	2,220	10,982
Private equity investments	–	762	9,128	9,890
Infrastructure investments	–	–	11,103	11,103
Other investments	–	3,766	–	3,766
Derivative financial instruments	29	1,156	–	1,185
	96,290	124,522	69,323	290,135
Financial liabilities excluding net assets attributable to depositors				
Amounts payable on transactions being settled	–	1,224	–	1,224
Other financial liabilities	–	529	–	529
Investment liabilities				
Securities sold under repurchase agreements	–	18,496	–	18,496
Securities sold short	1,840	4,328	21	6,189
Commercial paper payable	–	3,775	–	3,775
Loans payable	–	116	–	116
Term notes payable	–	9,899	–	9,899
Derivative financial instruments	20	2,495	49	2,564
	1,860	40,862	70	42,792
Net assets attributable to depositors				
Demand deposits	–	530	–	530
Term deposits	–	5	–	5
Distributions payable to depositors	–	2,118	–	2,118
Participation deposits	–	245,372	–	245,372
	–	248,025	–	248,025

TRANSFERS BETWEEN LEVELS OF THE FAIR VALUE HIERARCHY

During the year ended December 31, 2015, due to changes in the availability of observable inputs given changing market conditions, financial instruments with a value of $679 million were transferred from Level 3 to Level 2, of $44 million from Level 2 to Level 3, and of $145 million from Level 1 to Level 2.

FAIR VALUE MEASUREMENT (cont.)

D) LEVEL 3: RECONCILIATION BETWEEN OPENING AND CLOSING BALANCES

For financial instruments classified in Level 3 of the hierarchy, reconciliations between the opening and closing balances as at December 31, 2016 and as at December 31, 2015 are as follows:

	2016						
	Opening balance (assets/ (liabilities))	Gains (losses) recognized in comprehensive income[2]	Purchases	Sales	Transfers	Closing balance (assets/ (liabilities))	Unrealized gains (losses) on financial instruments held at year-end[3]
Short-term investments	2	2	–	(4)	–	–	–
Corporate receivables	8	1	5	(6)	–	8	1
Bonds	1,217	(13)	286	(115)	–	1,375	(9)
ABTNs	4,612	40	–	(682)	–	3,970	(87)
Equities and convertible securities	14,035	(85)	1,854	(2,421)	233	13,616	(368)
Interests in unconsolidated subsidiaries	49,449	1,295	12,274	(3,273)	250	59,995	1,281
Derivative financial instruments[1]	(49)	(23)	–	–	–	(72)	(23)
Securities sold short	(21)	4	312	(304)	–	(9)	11

	2015						
	Opening balance (assets/ (liabilities))	Gains (losses) recognized in comprehensive income[2]	Purchases	Sales	Transfers	Closing balance (assets/ (liabilities))	Unrealized gains (losses) on financial instruments held at year-end[3]
Short-term investments	3	(1)	–	–	–	2	(1)
Corporate receivables	10	4	–	(6)	–	8	4
Bonds	1,034	148	580	(567)	22	1,217	133
ABTNs	9,236	43	–	(4,667)	–	4,612	45
Equities and convertible securities	11,784	496	3,016	(1,604)	(657)	14,035	1,394
Interests in unconsolidated subsidiaries	40,199	5,133	7,785	(3,668)	–	49,449	4,985
Derivative financial instruments[1]	(2)	(51)	–	4	–	(49)	(49)
Securities sold short	(30)	(2)	11	–	–	(21)	4

1. The assets and liabilities related to derivative financial instruments are presented on a net basis.
2. Presented under "Net realized gains" and "Net unrealized gains" in the Consolidated Statement of Comprehensive Income.
3. Presented under "Net unrealized gains" in the Consolidated Statement of Comprehensive Income.

E) LEVEL 3: FAIR VALUE MEASUREMENT BASED ON REASONABLY POSSIBLE ALTERNATIVE ASSUMPTIONS

In certain cases, the assumptions used in the valuation techniques are based on unobservable inputs or observable inputs adjusted significantly to reflect the characteristics specific to the financial instrument being measured. While la Caisse considers its fair value measurements to be appropriate, the use of reasonably possible alternative assumptions could result in different fair values. For a given measurement date, it is possible that other market participants could measure a same financial instrument at a different fair value, with the valuation techniques and inputs used by these market participants still meeting the definition of fair value. The fact that different fair value measurements exist reflects the judgment, estimates and assumptions applied as well as the uncertainty involved in determining the fair value of these financial instruments.

FAIR VALUE MEASUREMENT (cont.)

The following tables present quantitative information on the primary valuation techniques and unobservable inputs for the main financial instruments classified in Level 3 of the fair value hierarchy that are subject to the sensitivity analysis in Note 7f as well as those that are excluded from the analysis:

				December 31, 2016
	Fair value	Valuation techniques	Unobservable inputs	Range (weighted average)
Subject to the sensitivity analysis				
Bonds	864	Discounted cash flows	Discount rates	8.3% to 8.5% (8.4%)
Equities of private companies				
Private equity investments	2,137	Comparable company multiples	EBITDA multiples	5.4 to 11.1 (8.5)
Infrastructure investments	2,152	Discounted cash flows	Discount rates	6.5% to 13.0% (10.5%)
Interests in unconsolidated subsidiaries				
Investments in real estate holdings	31,807	Comparable company multiples	Price-to-book value ratios	1.06
		Discounted cash flows	Discount rates	4.9% to 14.0% (6.5%)
			Credit spreads	0.0% to 12.5% (1.9%)
		Capitalization of cash flows	Capitalization rates	4.1% to 11.3% (5.3%)
Private equity investments	5,345	Comparable company multiples	EBITDA multiples	6.5 to 11.0 (9.7)
Infrastructure investments	10,145	Discounted cash flows	Discount rates	8.0% to 13.6% (8.9%)
	52,450			
Excluded from the sensitivity analysis				
Financial instruments[1]	26,433	Recent transactions[2]	n.a.	n.a.
		Broker quotes[3]	n.a.	n.a.
		Net asset value[4]	n.a.	n.a.
Net financial instruments classified in Level 3	78,883			

n.a.: not applicable

1. The fair value of the financial instruments presented in this item includes corporate receivables, bonds, ABTNs, equities, interests in unconsolidated subsidiaries, derivative financial instruments and securities sold short.
2. When fair value is determined based on recent transaction information, this value is the most representative indication of fair value. Consequently, la Caisse did not conduct a sensitivity analysis.
3. When fair value is determined using broker quotes, this value is the only reasonable indication of fair value. Consequently, la Caisse is unable to conduct a sensitivity analysis.
4. When fair value is determined based on net asset value, this value is the only reasonable indication of fair value. Consequently, la Caisse is unable to conduct a sensitivity analysis.

FAIR VALUE MEASUREMENT (cont.)

				December 31, 2015
	Fair value	Valuation techniques	Unobservable inputs	Range (weighted average)
Subject to the sensitivity analysis				
Bonds	629	Discounted cash flows	Discount rates	9.7% to 15.0% (11.5%)
ABTNs	4,245	Financial model	Correlation factors	27.7% to 99.0% (40.9%)
			Illiquidity premium	0.4%
Equities of private companies				
Private equity investments	3,122	Comparable company multiples	EBITDA multiples	6.8 to 17.5 (9.3)
Infrastructure investments	2,210	Discounted cash flows	Discount rates	7.8% to 10.0% (9.2%)
Interests in unconsolidated subsidiaries				
Investments in real estate holdings	26,998	Comparable company multiples	Price-to-book value ratios	1.06
		Discounted cash flows	Discount rates	5.0% to 14.0% (6.5%)
			Credit spreads	0.0% to 13.0% (1.9%)
		Capitalization of cash flows	Capitalization rates	3.5% to 11.5% (5.3%)
Private equity investments	1,613	Comparable company multiples	EBITDA multiples	6.3 to 11.2 (8.0)
Infrastructure investments	8,158	Discounted cash flows	Discount rates	7.8% to 11.0% (9.1%)
	46,975			
Excluded from the sensitivity analysis				
Financial instruments[1]	22,278	Recent transactions[2]	n.a.	n.a.
		Broker quotes[3]	n.a.	n.a.
		Net asset value[4]	n.a.	n.a.
Net financial instruments classified in Level 3	69,253			

n.a.: not applicable

1. The fair value of the financial instruments presented in this item includes short-term investments, corporate receivables, bonds, ABTNs, equities, interests in unconsolidated subsidiaries, derivative financial instruments and securities sold short.
2. When fair value is determined based on recent transaction information, this value is the most representative indication of fair value. Consequently, la Caisse did not conduct a sensitivity analysis.
3. When fair value is determined using broker quotes, this value is the only reasonable indication of fair value. Consequently, la Caisse is unable to conduct a sensitivity analysis.
4. When fair value is determined based on net asset value, this value is the only reasonable indication of fair value. Consequently, la Caisse is unable to conduct a sensitivity analysis.

FAIR VALUE MEASUREMENT (cont.)

F) SENSITIVITY ANALYSIS OF FAIR VALUE

The following analysis shows the sensitivity of fair value measurements to reasonably possible alternative assumptions for the significant unobservable inputs presented in the preceding tables of Note 7e. La Caisse identified reasonably possible alternative assumptions using its judgment and knowledge of the markets. The following table shows the increases and decreases in fair value that would result from these alternative assumptions for the main financial instruments classified in Level 3 of the fair value hierarchy that are subject to a sensitivity analysis:

	December 31, 2016		December 31, 2015	
	Increase	Decrease	Increase	Decrease
Sensitivity of fair value	3,508	(3,118)	3,319	(3,040)

As at December 31, 2016, the fair value sensitivity analysis shows an increase in fair value of $2,255 million ($2,230 million as at December 31, 2015) and a decrease in fair value of $2,043 million ($2,031 million as at December 31, 2015) attributable to investments in real estate holdings.

There is a correlation between unobservable inputs and the determination of fair value. Therefore, an increase (decrease) in discount rates, credit spreads, capitalization rates, and correlation factors would result in a decrease (increase) in fair value. Furthermore, an increase (decrease) in EBITDA multiples and price-to-book value ratios would result in an increase (decrease) in fair value. There is no predictable correlation between unobservable inputs.

08
OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

A financial asset and a financial liability must be offset in the Consolidated Statement of Financial Position when la Caisse has a legally enforceable right of set-off and intends either to settle on a net basis or to realize the financial asset and settle the financial liability simultaneously with the counterparty. La Caisse has a legally enforceable right of set-off when this right is exercisable in the normal course of business and in the event of default, insolvency or bankruptcy.

Amounts receivable from and amounts payable on transactions being settled, securities purchased under reverse repurchase agreements, securities sold under repurchase agreements and derivative financial instruments traded on over-the-counter markets in accordance with agreements of the *International Swaps and Derivatives Association* (ISDA) are subject to master netting agreements that do not meet the criteria for offsetting in the Consolidated Statement of Financial Position as they give a right of set-off that is enforceable only in the event of default, insolvency or bankruptcy.

Derivative financial instruments traded on exchange markets as well as those settled by clearing houses through brokers satisfy offsetting criteria.

OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES (cont.)

The following tables present information about financial assets and liabilities that are offset and not offset in the Consolidated Statement of Financial Position and that are subject to master netting agreements or similar arrangements:

					December 31, 2016	
	Gross amounts recognized	Amounts offset	Net amounts presented in the Consolidated Statement of Financial Position[1]	Amounts subject to master netting agreements	Collateral received/ pledged[2]	Net amounts
Financial assets						
Amounts receivable from transactions being settled	3,898	–	3,898	(1,263)	–	2,635
Securities purchased under reverse repurchase agreements	10,732	–	10,732	(6,902)	(3,826)	4
Derivative financial instruments[3]	1,113	(1)	1,112	(641)	(168)	303
	15,743	(1)	15,742	(8,806)	(3,994)	2,942
Financial liabilities						
Amounts payable on transactions being settled	1,687	–	1,687	(1,263)	–	424
Securities sold under repurchase agreements	21,555	–	21,555	(6,902)	(14,650)	3
Derivative financial instruments[3]	1,094	(1)	1,093	(641)	(339)	113
	24,336	(1)	24,335	(8,806)	(14,989)	540

					December 31, 2015	
	Gross amounts recognized	Amounts offset	Net amounts presented in the Consolidated Statement of Financial Position[1]	Amounts subject to master netting agreements	Collateral received/ pledged[2]	Net amounts
Financial assets						
Amounts receivable from transactions being settled	1,288	–	1,288	(757)	–	531
Securities purchased under reverse repurchase agreements	8,687	–	8,687	(7,912)	(763)	12
Derivative financial instruments[3]	1,233	(3)	1,230	(768)	(4)	458
	11,208	(3)	11,205	(9,437)	(767)	1,001
Financial liabilities						
Amounts payable on transactions being settled	1,224	–	1,224	(609)	–	615
Securities sold under repurchase agreements	18,496	–	18,496	(8,060)	(10,434)	2
Derivative financial instruments[3]	2,619	(3)	2,616	(768)	(1,335)	513
	22,339	(3)	22,336	(9,437)	(11,769)	1,130

1. Net amounts presented in the Consolidated Statement of Financial Position or in Notes 4a and 4b.
2. The financial collateral received or pledged cannot include a net amount per counterparty less than zero. The total amounts of financial collateral received or pledged are presented in Note 15.
3. The amounts presented in this item include amounts receivable and payable related to derivative financial instruments presented, respectively, under "Investment income, accrued and receivable" and "Other financial liabilities."

09
NET INVESTMENT INCOME

The following table presents the investment income and expense of the financial instruments at fair value through profit or loss:

	2016			2015		
	Dividend income (expense)	**Interest income (expense)**	**Net investment income**	Dividend income (expense)	Interest income (expense)	Net investment income
Cash management activities	–	10	10	–	29	29
Investing activities						
Short-term investments	–	16	16	–	20	20
Securities purchased under reverse repurchase agreements	–	30	30	–	63	63
Corporate receivables	–	90	90	–	95	95
Bonds	–	1,874	1,874	–	2,015	2,015
ABTNs	–	134	134	–	93	93
Equities and convertible securities	4,081	15	4,096	3,593	22	3,615
Interests in unconsolidated subsidiaries	2,557	833	3,390	1,363	817	2,180
	6,638	3,002	9,640	4,956	3,154	8,110
Other			42			21
Total investment income			9,682			8,131
Investment liability activities						
Securities sold under repurchase agreements	–	(94)	(94)	–	(75)	(75)
Securities sold short	(23)	(69)	(92)	(61)	(83)	(144)
Financing activities						
Commercial paper payable	–	(34)	(34)	–	(14)	(14)
Loans payable	–	–	–	–	(1)	(1)
Term notes payable	–	(364)	(364)	–	(372)	(372)
	(23)	(561)	(584)	(61)	(545)	(606)
Other expenses						
External management fees			(35)			(21)
Total investment expense			(619)			(627)
Net investment income			9,063			7,504

10
NET INVESTMENT RESULT BEFORE DISTRIBUTIONS TO DEPOSITORS

The following table presents the net investment income, net realized gains (losses) and net unrealized gains (losses) on financial instruments at fair value through profit or loss as well as operating expenses:

	2016				2015			
	Net investment income *(Note 9)*	**Net realized gains (losses)**	**Net unrealized gains (losses)**	**Total**	Net investment income *(Note 9)*	Net realized gains (losses)	Net unrealized gains (losses)	Total
Cash management activities	**10**	**(7)**	**–**	**3**	29	–	–	29
Investing activities								
Short-term investments	**16**	**(2)**	**(6)**	**8**	20	37	(9)	48
Securities purchased under reverse repurchase agreements	**30**	**61**	**(18)**	**73**	63	541	35	639
Corporate receivables	**90**	**45**	**(94)**	**41**	95	132	190	417
Bonds	**1,874**	**1,693**	**(2,056)**	**1,511**	2,015	1,877	355	4,247
ABTNs	**134**	**(4)**	**48**	**178**	93	9	45	147
Equities and convertible securities	**4,096**	**8,473**	**(977)**	**11,592**	3,615	6,281	4,304	14,200
Interests in unconsolidated subsidiaries	**3,390**	**147**	**878**	**4,415**	2,180	6	6,813	8,999
Net derivative financial instruments	**–**	**31**	**1,416**	**1,447**	–	(4,559)	(102)	(4,661)
Other	**42**	**(176)**	**–**	**(134)**	21	96	–	117
	9,682	**10,261**	**(809)**	**19,134**	8,131	4,420	11,631	24,182
Investment liability activities								
Securities sold under repurchase agreements	**(94)**	**(38)**	**21**	**(111)**	(75)	(492)	(17)	(584)
Securities sold short	**(92)**	**(600)**	**678**	**(14)**	(144)	(2,362)	1,529	(977)
Financing activities								
Commercial paper payable	**(34)**	**61**	**43**	**70**	(14)	(417)	(45)	(476)
Loans payable	**–**	**12**	**1**	**13**	(1)	(69)	11	(59)
Term notes payable	**(364)**	**–**	**327**	**(37)**	(372)	–	(1,083)	(1,455)
Other								
External management fees	**(35)**	**(3)**	**–**	**(38)**	(21)	(6)	–	(27)
Transaction costs	**–**	**(137)**	**–**	**(137)**	–	(99)	–	(99)
	(619)	**(705)**	**1,070**	**(254)**	(627)	(3,445)	395	(3,677)
	9,063	**9,556**	**261**	**18,880**	7,504	975	12,026	20,505
Operating expenses *(Note 11)*				**(463)**				(396)
Net investment result before distributions to depositors				**18,417**				20,109

11
OPERATING EXPENSES

The following table presents the operating expenses:

	2016	2015
Salaries and employee benefits	**284**	240
Information technology and professional services	**53**	47
Data services and subscriptions	**18**	16
Rent	**16**	15
Maintenance, equipment and amortization	**50**	43
Other expenses	**27**	22
	448	383
Safekeeping of securities	**15**	13
	463	396

12
RISK IDENTIFICATION AND MANAGEMENT

RISK MANAGEMENT POLICIES, DIRECTIVES AND PROCEDURES RELATED TO INVESTMENT ACTIVITIES

La Caisse is responsible for managing deposits in accordance with service agreements and depositor investment policies, the investment policies for specialized portfolios and the integrated risk management policy. To do so, it has implemented various policies, directives and procedures to oversee the management of the risks relating to its operations.

The integrated risk management policy is adopted by la Caisse's Board of Directors. The purpose of this policy is to promote a rigorous risk management culture and practices that help la Caisse carry out its mission on behalf of its depositors. The integrated risk management policy defines market risk, concentration risk, credit risk, the counterparty risk associated with derivative financial instruments, and financing-liquidity risk.

Specifically, this policy aims to:

- Establish the guiding principles that support la Caisse's integrated risk management framework and promote a sound risk management culture at all levels of the organization;
- Set out the risk management model and governance structure;
- Define the roles and responsibilities of stakeholders;
- Establish oversight of the main risks to which la Caisse is exposed.

La Caisse's governance and risk management are based on the following twelve guiding principles:

- A risk tolerance framework;
- The roles of the Board of Directors and senior executives;
- A client-centric approach that focuses on the needs of depositors;
- A long-term investment strategy;
- Liquidity and financing management;
- In-depth knowledge of assets and markets;
- Independent functions and stakeholder accountability;
- Collaboration for comprehensive risk management;
- Operational excellence;
- Use of derivative financial instruments and counterparty risk management;
- Oversight of new investment activities and new financial instruments;
- A responsible investment framework.

RISK IDENTIFICATION AND MANAGEMENT (cont.)

The levels of control and parties responsible for risk management governance are as follows:

1. Investment groups have the primary responsibility for managing the risks related to their operations;
2. Independent teams and internal committees are responsible for supporting investment group employees and setting appropriate control mechanisms;
3. The Board of Directors and its committees ensure a management framework is adopted, and the Internal Audit group ensures execution and compliance with the established risk management framework.

The integrated risk management policy sets out risk limits and authorization levels for la Caisse as a whole as well as limits applicable to cross-functional activities. In addition, la Caisse develops and periodically reviews the specialized portfolio investment policies that are designed to oversee the work of the specialized portfolio managers. A separate investment policy sets out investment strategy, management style, eligible investments, target returns, benchmark index, and concentration and risk limits.

Furthermore, each investment group must adopt an investment strategy. SIP seeks to strengthen the decision-making process by achieving a better matching of return to risk when choosing investments. SIP sets future directions, strengthens the collaboration and information sharing processes required to make strategic investment decisions and ensures a better alignment between the directions and strategies. The SIP process is conducted annually and includes the following steps: 1) Diagnostic and strategic directions; 2) Strategic plans; 3) Review and approval and 4) Execution and accountability. Investment plans are presented to the Investment-Risk Committee (IRC) for approval and are communicated to the Executive Committee and Board of Directors.

La Caisse is exposed to various financial risks. Detailed information regarding these risks is presented in the following sections.

MARKET RISK

Market risk is the risk of financial loss arising from fluctuations in the fair value of financial instruments. Volatility in financial instrument prices stems from changes in market risk factors, in particular interest rates, credit rate spreads, exchange rates, share prices and commodity prices. La Caisse uses derivative financial instruments to manage market risks.

La Caisse manages all market risks according to an integrated approach for all specialized portfolios. The main factors contributing to risk, such as industry sector, geographic region and issuer, are taken into account. La Caisse's market risks are managed and calculated according to factors that can influence the fair value of investments and investment liabilities.

La Caisse measures its market risk using Value-at-Risk (VaR), which is based on a statistical estimate of the volatility of the fair value of each position and of correlations between market risk factors. VaR is a statistical estimate of the potential financial loss that could be incurred by la Caisse's actual portfolio, based on a predetermined confidence level and a given exposure period. The market VaR is estimated with a 99% confidence level over an exposure period of one year. To summarize, VaR indicates the level of loss that the actual portfolio of la Caisse could exceed in only 1% of cases. La Caisse estimates VaR for each instrument held in its specialized portfolios and aggregates the information for la Caisse's actual portfolio.

The historical-simulation method is used to measure VaR. This method is based mainly on the assumption that the future will be similar to the past. It requires that historical data series on all the risk factors needed to estimate the returns on financial instruments be available. In the absence of historical data, alternative methods are used.

The calculation results obtained by applying this methodology do not make it possible to estimate the amount of loss, based on a specific event, that would be incurred by la Caisse's portfolio if this event re-occurred. For example, if future conditions and market risk factors were substantially different from past economic conditions, actual losses could differ substantially from estimated losses. Moreover, these estimates at a given date do not take into account all possible losses resulting from exceptional market events or losses that could arise over and above the 99% confidence level. Consequently, in light of these limitations, the losses for la Caisse's actual portfolio could exceed the estimates.

A history of 2,500 days of observation of risk factors is used to measure the volatility of returns and the correlation between the return of financial instruments. Moreover, due to the methodology, the effects on the portfolio of the worst events seen over a one-week horizon are repeated several times during the year.

RISK IDENTIFICATION AND MANAGEMENT (cont.)

Two risk measures are calculated and analyzed:

- The absolute risk of the actual portfolio represents the total risk associated with the categories of financial instruments that make up la Caisse's actual portfolio;
- The absolute risk of the benchmark portfolio targeted by depositors represents the total risk of the benchmark indexes associated with the categories of financial instruments that make up la Caisse's benchmark portfolio.

The absolute risks of la Caisse's actual and benchmark portfolios are measured regularly and used to calculate the absolute risk ratio, which is subject to certain limitations. The absolute risk ratio is obtained by dividing the absolute risk of the actual portfolio by the absolute risk of the benchmark portfolio.

The absolute risk of the actual portfolio and the absolute risk of the benchmark portfolio, including the risk associated with the underlying investments of unconsolidated subsidiaries whose risk is managed by la Caisse, as a percentage of net assets, according to a 99% confidence level and a history of 2,500 days, are as follows:

	December 31, 2016			December 31, 2015		
	Absolute risk of the actual portfolio %	**Absolute risk of the benchmark portfolio %**	**Absolute risk ratio**	Absolute risk of the actual portfolio %	Absolute risk of the benchmark portfolio %	Absolute risk ratio
Value at risk	**22.9**	**24.0**	**0.95**	24.2	24.4	0.99

Moreover, when managing market risk, la Caisse uses stress tests that allow it to evaluate the consequences of specific circumstances on the returns of la Caisse's actual portfolio based on historical, hypothetical or risk factor sensitivity scenarios. Using various types of scenarios, stress tests measure financial instrument impairment following a change in one or more often-related risk factors, such as share prices, interest rates, rate spreads, exchange rates, commodity prices and market volatility.

CURRENCY RISK

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. This risk is integrated into the VaR measurement.

In connection with the management of currency risk, certain specialized portfolios are fully or partially covered against such risk. La Caisse's exposure to foreign currencies takes into account coverage of the specialized portfolios as well as the customized currency strategies of the individual funds of each depositor. Customized currency strategies of individual funds are used by depositors to achieve the desired exposure to certain foreign currencies.

La Caisse uses derivative financial instruments to manage its exposure to foreign currencies. These instruments generally have maturities of less than 12 months for currency forwards and of less than two years for currency options and currency swaps. At maturity, new derivative financial instruments are negotiated to maintain effective long-term management of currency risk. Moreover, currency risk can also be managed by way of natural hedging activities, including the financing of investments in the same currency.

The net exposure to foreign currencies takes into account the effects of currency derivatives, natural hedging and the underlying investments in currencies of unconsolidated subsidiaries whose currency risk is managed by la Caisse. La Caisse's net exposure to foreign currencies, as a percentage of net assets including purchases and cancellations of participation units of the specialized portfolios completed at the beginning of each month, is as follows:

	December 31, 2016 %	December 31, 2015 %
Canadian dollar	**63**	69
U.S. dollar	**17**	15
Euro	**4**	2
Yen	**2**	2
Pound sterling	**2**	2
Swiss Franc	**1**	2
Other	**11**	8
	100	100

RISK IDENTIFICATION AND MANAGEMENT (cont.)

INTEREST RATE RISK

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. This risk is integrated into the VaR measurement.

PRICE RISK

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than changes arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer or by factors that affect all similar financial instruments traded on the market. This risk is integrated into the VaR measurement.

CONCENTRATION RISK

La Caisse analyzes overall concentration risk for the entire group of specialized portfolios that it manages. The integrated risk management policy sets out exposure limits according to category of financial instrument and according to issuer for growth markets and for certain countries. Moreover, the investment policies of the specialized portfolios set out specific limits for each issuer, industry sector and geographic region.

The concentration limit by issuer is 3% of la Caisse's total assets, with the exception of securities issued by the governments of Canada, Québec or other Canadian provinces or territories, as well as by their ministries and agencies, which are not subject to concentration limits. Sovereign issuers rated AAA are also excluded from this concentration limit. Concentration by issuer is monitored monthly or upon initiation of a transaction requiring approval of the IRC or the Board of Directors, as appropriate.

The following table presents the principal geographic concentrations as a percentage of total net exposure, established according to the country of the issuers' principal place of business, after the effects of certain derivative financial instruments and including the underlying investments in unconsolidated subsidiaries whose concentration risk is managed by la Caisse:

	December 31, 2016 **%**	December 31, 2015 %
Canada	**41**	46
United States	**31**	27
Europe	**13**	14
Growth markets	**10**	8
Other	**5**	5
	100	100

RISK IDENTIFICATION AND MANAGEMENT (cont.)

The following table presents the principal industry sector concentrations as a percentage of total net exposure, established according to the industry sector in which the issuers operate, after the effects of certain derivative financial instruments and including the underlying investments in unconsolidated subsidiaries whose concentration risk is managed by la Caisse:

	December 31, 2016 %	December 31, 2015 %
Industry sector		
Real estate	18	18
Financials	10	12
Industrials	8	8
Consumer discretionary	6	7
Information technology	6	6
Energy	6	5
Consumer staples	5	5
Utilities	5	5
Real estate debt	4	4
Health care	4	4
Materials	2	2
Telecommunication services	2	2
Other	3	4
Government sector		
Government of Canada	7	7
Government of Québec	5	7
Government corporations and other public administrations in Québec	2	2
Other	7	2
	100	100

RISK IDENTIFICATION AND MANAGEMENT (cont.)

CREDIT RISK

Credit risk is the possibility of incurring a loss in value should a borrower, endorser, or guarantor experience a deterioration in financial position, fail to meet an obligation to repay a loan or fail to meet any other financial commitment.

Maximum credit risk exposure is measured based on the fair value of financial instruments without taking into account guarantees or other credit enhancements. For the other items, the maximum exposure to credit risk is the total amount guaranteed or committed.

The following table presents the maximum exposure to credit risk:

	December 31, 2016	December 31, 2015
Cash	**651**	420
Amounts receivable from transactions being settled	**3,898**	1,288
Advances to depositors	**1,068**	776
Investment income, accrued and receivable	**1,173**	1,226
Investments		
Cash equivalents	**1,240**	2,245
Fixed-income securities	**95,939**	94,755
Interests in unconsolidated subsidiaries in the form of debt instruments	**22,518**	24,413
Derivative financial instruments	**1,096**	1,185
	127,583	126,308
Other items		
Guarantees and loan guarantees *(Note 18)*	**113**	154
ABTN funding facility *(Note 18)*	**6,167**	6,167
	6,280	6,321
	133,863	132,629

La Caisse enters into master netting agreements *(Note 8)*, receives guarantees *(Note 15)* and may also use derivative financial instruments such as credit default swaps, to reduce its total credit risk exposure.

In addition, to manage credit risk, la Caisse closely monitors changes in the credit cycle of issuers and uses a credit VaR to calculate the potential financial loss related to possible changes in the credit quality of issuers of fixed-income securities.

RISK IDENTIFICATION AND MANAGEMENT (cont.)

CONCENTRATION OF CREDIT RISK

A credit risk concentration analysis measures the fair value of all financial instruments related to a same issuer. The investment policy of the specialized portfolios sets out concentration limits according to credit rating. The credit risk analysis considers the probability of default and the recovery rate on debt securities held by la Caisse and monitors changes in the credit quality of issuers.

The following table presents the credit risk concentration according to the credit ratings of issuers of fixed-income securities and certain derivative financial instruments used to manage credit risk, as a percentage of the total exposure to credit concentration risk:

	December 31, 2016 %	December 31, 2015 %
Credit rating		
AAA – AA	43	38
A	37	44
BBB	9	8
BB or lower	8	6
No credit rating	3	4
	100	100

The credit ratings of securities issued or guaranteed by governments are obtained from recognized credit rating agencies. For corporate sector securities, credit ratings are determined using an internal rating process that monitors changes in the credit cycle annually when the necessary information is available. Otherwise, la Caisse uses recognized credit rating agencies.

COUNTERPARTY RISK RELATED TO DERIVATIVE FINANCIAL INSTRUMENTS

Certain over-the-counter financial instruments give rise to counterparty risk because they are negotiated by contract without being traded or settled through a clearing house. Counterparty risk related to derivative financial instruments is the credit risk created by current or potential exposures arising from derivative financial instrument transactions where the counterparty becomes unable to honour the terms of the contracts.

To limit its exposure to the counterparty risk arising from transactions involving over-the-counter derivative financial instruments, la Caisse carries out transactions with financial institutions in accordance with management's criteria regarding the quality of the issuer. Moreover, la Caisse enters into legal agreements based on ISDA standards under which it benefits from the compensating effects between at-risk amounts and the collateral exchanged in order to limit its net exposure to this risk.

This risk is measured by counterparty, pursuant to the applicable legal agreement, from which it is possible to calculate the net exposure created by all of the over-the-counter derivative financial instruments and collateral exchanged. Actual exposure to counterparty risk is measured on a daily basis, whereas potential exposure to counterparty risk is measured on a monthly basis.

As at December 31, 2016, the legal agreements and the collateral received helped reduce exposure to the counterparty risk of over-the-counter derivative financial instruments. The maximum exposure to this risk is $243.9 million ($420 million as at December 31, 2015) related to 31 counterparties (31 as at December 31, 2015).

LIQUIDITY RISK

Liquidity risk is the possibility of la Caisse not always being able to honour its financial liability commitments without having to obtain funds at abnormally high prices or having to sell assets through forced liquidation. It is also the risk of la Caisse not being able to quickly sell investments without having a significant unfavourable effect on the price of the investment in question.

Liquidity is managed across all of la Caisse's cash activities. Compliance with the established rules is analyzed on a monthly basis, and the liquidity status is determined daily. Managers are responsible for evaluating the liquidity of the markets on which la Caisse obtains financing for its operations.

To ensure that sources of liquidity and potential liquidity requirements are properly aligned, la Caisse has a number of sources of liquidity in addition to its cash and cash equivalents, including receipt of investment income, the sale of bonds, sales under repurchase agreements and liquid money market securities. In addition, la Caisse may issue commercial paper and term notes payable to meet its contractual commitments and financial obligations. As at December 31, 2016, la Caisse has close to $43 billion in liquidity ($46 billion as at December 31, 2015).

Furthermore, to manage liquidity risk, la Caisse conducts simulations of scenarios over different horizons and examines events that could lead to a liquidity crisis.

RISK IDENTIFICATION AND MANAGEMENT (cont.)

An analysis of undiscounted contractual cash flows of financial liabilities, presented in the table below, is a component of liquidity and financing management. However, this by-maturity allocation is not necessarily representative of the manner in which la Caisse manages its liquidity risk and financing requirements.

The following tables present the maturities of the undiscounted contractual cash flows of non-derivative financial liabilities, derivative financial instruments and other items:

					December 31, 2016
	On demand	Less than 1 year	1 year to 5 years	More than 5 years	Total
Non-derivative financial liabilities					
Amounts payable on transactions being settled	–	(1,687)	–	–	(1,687)
Other financial liabilities	–	(408)	–	–	(408)
Investment liabilities					
Securities sold under repurchase agreements	–	(21,563)	–	–	(21,563)
Securities sold short	–	(418)	(2,047)	(4,088)	(6,553)
Commercial paper payable	–	(4,822)	–	–	(4,822)
Loans payable	–	(189)	–	–	(189)
Term notes payable	–	(364)	(5,578)	(5,457)	(11,399)
Net assets attributable to depositors					
Demand and term deposits	(728)	(6)	–	–	(734)
Distributions payable to depositors	–	(1,373)	–	–	(1,373)
	(728)	(30,830)	(7,625)	(9,545)	(48,728)
Derivative financial instruments					
Derivative instruments with net settlement	–	(29)	12	83	66
Derivative instruments with gross settlement					
Contractual cash flows receivable	–	67,923	300	1,062	69,285
Contractual cash flows payable	–	(68,000)	(287)	(1,038)	(69,325)
	–	(106)	25	107	26
Other items					
Commitments *(Note 18)*	(61)	(15,843)	(355)	(49)	(16,308)
Guarantees and loan guarantees *(Note 18)*	–	–	(7)	(106)	(113)
ABTN funding facility *(Note 18)*	–	(6,167)	–	–	(6,167)
	(61)	(22,010)	(362)	(155)	(22,588)
	(789)	(52,946)	(7,962)	(9,593)	(71,290)

RISK IDENTIFICATION AND MANAGEMENT (cont.)

					December 31, 2015
	On demand	Less than 1 year	1 year to 5 years	More than 5 years	Total
Non-derivative financial liabilities					
Amounts payable on transactions being settled	–	(1,224)	–	–	(1,224)
Other financial liabilities	–	(348)	–	–	(348)
Investment liabilities					
Securities sold under repurchase agreements	–	(18,504)	–	–	(18,504)
Securities sold short	–	(1,935)	(933)	(4,115)	(6,983)
Commercial paper payable	–	(3,778)	–	–	(3,778)
Loans payable	–	(116)	–	–	(116)
Term notes payable	–	(377)	(5,953)	(5,604)	(11,934)
Net assets attributable to depositors					
Demand and term deposits	(530)	(5)	–	–	(535)
Distributions payable to depositors	–	(2,118)	–	–	(2,118)
	(530)	(28,405)	(6,886)	(9,719)	(45,540)
Derivative financial instruments					
Derivative instruments with net settlement	–	(25)	8	103	86
Derivative instruments with gross settlement					
Contractual cash flows receivable	–	60,863	5,421	1,137	67,421
Contractual cash flows payable	–	(62,213)	(5,479)	(1,180)	(68,872)
	–	(1,375)	(50)	60	(1,365)
Other items					
Commitments *(Note 18)*	(97)	(17,622)	(1,155)	(81)	(18,955)
Guarantees and loan guarantees *(Note 18)*	–	(16)	(8)	(130)	(154)
ABTN funding facility *(Note 18)*	–	–	(6,167)	–	(6,167)
	(97)	(17,638)	(7,330)	(211)	(25,276)
	(627)	(47,418)	(14,266)	(9,870)	(72,181)

Moreover, concerning net assets attributable to holders of participation deposits, the Regulation sets monthly limits for cancelling participation units, i.e., a depositor is limited to a maximum reimbursement of all their participation units in all of la Caisse's specialized portfolios of $15 million plus the proceeds of $2 million multiplied by the number of months that have elapsed since receipt of the notice of withdrawal. Any participation units that are not cancelled given the maximum amount permitted is carried forward to the first day of the subsequent month and are cancelled as soon as the limit permits. The purpose of the limits is to ensure optimal management of la Caisse's overall liquidity. Moreover, substantially all depositors are required to invest with la Caisse in accordance with the Act or the respective applicable legislation.

RISK IDENTIFICATION AND MANAGEMENT (cont.)

FINANCING-LIQUIDITY RISK

The following tables present the main terms and conditions and effective interest rates of the investment liabilities related to la Caisse's financing activities:

				December 31, 2016
	Currency	Nominal value	Maturity	Effective interest rate %
Loans payable	USD	189	Less than one year	0.62
		189		
Commercial paper payable	CAD	1,000	Less than one year	0.65
	USD	3,822	Less than one year	1.12
		4,822		
Term notes payable	USD	2,347	November 2019	4.40
	EUR	1,061	June 2020	3.50
	CAD	1,000	July 2020	4.60
	USD	2,682	July 2024	3.15
	USD	1,676	November 2039	5.60
		8,766		

				December 31, 2015
	Currency	Nominal value	Maturity	Effective interest rate %
Loans payable	USD	116	Less than one year	0.37
		116		
Commercial paper payable	CAD	1,000	Less than one year	0.57
	USD	2,778	Less than one year	0.39
		3,778		
Term notes payable	USD	2,431	November 2019	4.40
	EUR	1,132	June 2020	3.50
	CAD	1,000	July 2020	4.60
	USD	2,778	July 2024	3.15
	USD	1,736	November 2039	5.60
		9,077		

The loans payable are repayable at maturity.

Commercial paper payable is issued at a discount, at fixed rates, with maturities not exceeding 12 months. The nominal value for all outstanding commercial paper may never exceed $8 billion in accordance with the limit prescribed in the commercial paper issuance information document.

Term notes payable are issued at a discount, or at par, and are repayable at maturity and secured by la Caisse's assets. Certain interest-bearing fixed-rate term notes have an optional prepayment clause at the option of the issuer.

13
CAPITAL MANAGEMENT

La Caisse defines its capital as net assets attributable to depositors. La Caisse's capital may fluctuate according to depositor demands for cancellations and issuances of participation deposit units and for deposits and withdrawals of demand and term deposits. La Caisse's capital management objective is to invest contributions and deposits in the best interests of the depositors in accordance with the Act in order to achieve an optimal return while respecting the depositor investment policies.

La Caisse is not subject to external capital requirements.

Furthermore, la Caisse's objective is to maintain its AAA credit rating to ensure access to capital markets at the best cost through its CDP Financial Inc. subsidiary. Consequently, the Board of Directors has limited the amount of notes that la Caisse may issue on capital markets to 10% of its net assets attributable to depositors, to which is added the fair value of outstanding notes (adjusted net assets).

14
FINANCIAL ASSETS TRANSFERRED BUT NOT DERECOGNIZED

La Caisse enters into securities lending and borrowing transactions as well as securities repurchase agreements whereby it transfers financial assets to counterparties. The transferred securities do not meet derecognition criteria since la Caisse retains most of the risks such as credit risk, interest rate risk, currency risk, and price risk, as well as most of the related rewards such as cash flows.

The following table presents the fair values of the financial assets transferred but not derecognized from the Consolidated Statement of Financial Position as well as the fair values of the associated liabilities:

	December 31, 2016	December 31, 2015
Financial assets transferred but not derecognized		
Bonds	**21,717**	18,806
Equities	**6,314**	6,508
	28,031	25,314
Associated liabilities		
Loans payable[1]	**189**	116
Securities sold under repurchase agreements	**21,555**	18,496
	21,744	18,612

1. The amount presented corresponds to cash received as collateral on securities lending transactions.

15
GUARANTEES

FINANCIAL ASSETS PLEDGED AS COLLATERAL

In the normal course of business, la Caisse pledges financial assets as collateral for transactions involving securities borrowings, securities sold under repurchase agreements and derivative financial instruments. The counterparties are authorized, by way of legal contract or market practices, to either sell or repledge these securities as collateral. On certain conditions, la Caisse may have to pledge additional collateral if the pledged securities lose value.

The following table presents the fair value of collateral pledged by la Caisse according to transaction type:

	December 31, 2016	December 31, 2015
Securities borrowing	**81**	346
Securities sold under repurchase agreements	**21,636**	18,694
Exchange-traded derivative financial instruments	**810**	456
Over-the-counter derivative financial instruments	**1,097**	1,954
	23,624	21,450

FINANCIAL ASSETS RECEIVED AS COLLATERAL

La Caisse receives financial assets as collateral for transactions involving securities lending, securities purchased under reverse repurchase agreements and derivative financial instruments. If the fair value of the collateral received decreases, la Caisse may, in certain cases, request additional collateral. La Caisse is authorized to sell or repledge as collateral certain securities in the absence of default by the counterparty. However, no security received as collateral was sold or repledged as collateral for the years ended December 31, 2016 and 2015.

The following table presents the fair value of collateral received by la Caisse according to transaction type:

	December 31, 2016	December 31, 2015
Securities lending	**6,481**	5,883
Securities purchased under reverse repurchase agreements	**10,787**	8,838
Over-the-counter derivative financial instruments	**125**	5
	17,393	14,726

16
RELATED PARTY DISCLOSURES

RELATED PARTY TRANSACTIONS

La Caisse's primary related parties include unconsolidated subsidiaries, joint ventures, associates, and la Caisse's key management personnel.

La Caisse enters into various transactions with related parties. These transactions are concluded under the same conditions as those prevailing in the market with unrelated parties and are measured at fair value. Given the very nature of la Caisse's activities as an investment entity, it may make investments in several investment categories, including investments in unconsolidated subsidiaries, joint ventures and associates.

OTHER RELATED PARTIES

La Caisse is governed by the Act, and the Government of Québec appoints the Board of Director members, at least two-thirds of whom must be independent. The Government of Québec also approves the appointment of the President and Chief Executive Officer. Consequently, la Caisse has availed itself of the exemption set out in IAS 24 – *Related Party Disclosures* regarding the disclosure of transactions with a related government and with any entities related to the related government. The transactions carried out with the Government of Québec and its related entities are investment activities involving bonds issued by or guaranteed by the government and are carried out under normal market conditions through external brokers. These bonds are included in the "Governments" and "Government corporations and other public administrations" bond categories of Note 4a. In addition, la Caisse discloses information on the Government Sector category in the "Government of Québec" and "Government corporations and other public administrations in Québec" items of Note 12.

COMPENSATION OF KEY MANAGEMENT PERSONNEL

La Caisse's key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, either directly or indirectly. These persons are the members of the Board of Directors, the President and Chief Executive Officer, and key members of the Executive Committee.

The following table presents the compensation of la Caisse's key management personnel:

	2016	2015
Salaries and other short-term employee benefits	9	8
Post-employment benefits	2	1
Other long-term employee benefits	6	6
	17	15

17
INTERESTS IN OTHER ENTITIES

SUBSIDIARIES

CONSOLIDATED SUBSIDIARY

CDP Financial Inc. is a wholly owned subsidiary that issues debt securities in order to finance la Caisse's investments at an optimal financing cost.

UNCONSOLIDATED SUBSIDIARIES

The subsidiaries presented in this category are entities controlled by la Caisse either directly or indirectly through subsidiaries in accordance with the criteria in IFRS 10.

INTERMEDIATE SUBSIDIARIES

As part of certain investment activities, la Caisse may use intermediate subsidiaries whose sole purpose is to hold investments for la Caisse. They are therefore not included in the information presented in the following tables, while the main underlying ownership interests in subsidiaries, joint ventures, associates and non-controlled structured entities are presented.

INTERESTS IN OTHER ENTITIES (cont.)

The following table presents the ownership interests held in the main consolidated and unconsolidated subsidiaries as at December 31, 2016 as well as the comparative ownership interests as at December 31, 2015:

	Principal place of business	December 31, 2016 Ownership interest %	December 31, 2015 Ownership interest %
Consolidated subsidiary			
CDP Financial Inc	Canada	100.0	100.0
Unconsolidated subsidiaries			
Real estate debt			
Otéra Capital inc[1,2]	Canada	97.5	97.5
Hedge funds			
AIM Quantitative Global SF II Ltd	United States[8]	100.0	–
AlphaQuest Original Ltd	United States[8]	100.0	100.0
CDP WTN Diversified Strategy Fund Limited	United Kingdom[8]	100.0	100.0
Dorsal Capital Partners LP	United States	100.0	–
Ionic Pamli Global Credit Strategies Fund	United States[8]	100.0	–
Newport Mount Royal Opportunity Fund Ltd	United States[8]	100.0	100.0
Private investment funds			
GSO Churchill Partners LP	United States[8]	98.0	98.0
GSO Churchill Partners II LP	United States[8]	98.0	98.0
KKR-CDP Partners LP	United States[8]	90.1	90.1
Apollo Hercules Partners LP	United States[8]	97.6	–
Real estate – Ivanhoé Cambridge Group			
Careit Canada DCR GP	Canada	93.4	93.1
Careit Canada GP	Canada	93.4	93.1
IC Australia Trust	Australia	93.4	93.1
IC Investments US G.P.	Canada	93.4	93.1
IC Investments Mexico G.P.	Canada	93.4	–
Ivanhoé Cambridge Inc	Canada	93.4	93.1
SITQ International Inc	Canada	93.4	93.1
SITQ E.U., LP	Canada	93.3	93.0
Materials			
Beaudier Ciment Inc (Ciment McInnis Inc)[3]	Canada	51.6	44.6
Utilities			
CDP (SEW) Fund, LP[4]	United Kingdom[9]	75.0	75.0
Patina Rail LLP[5]	United Kingdom	75.0	75.0
Trencap LP (Gaz Métro)[6]	Canada	59.6	59.6
Trust No. 2431 (ICA Operadora de Vias Terrestres, S.A.P.I. de C.V.)[7]	Mexico	51.0	51.0

1. The Otéra Capital inc, Hypothèques CDPQ Inc and CDPQ Mortgage Investment Corporation were merged as of July 1, 2016 under the name Otéra Capital inc.
2. Otéra Capital inc owns 78.1% of MCAP Commercial LP as at December 31, 2016 (77.9% as at December 31, 2015).
3. Beaudier Ciment Inc (Ciment McInnis Inc) was presented in the "Associates" category as at December 31, 2015.
4. CDP (SEW) Fund LP owns 50.0% of HDK (UK) Holdings Limited, which owns 100.0% of South East Water Ltd.
5. Patina Rail LLP owns 40.0% of Eurostar International Limited.
6. Trencap LP owns 61.1% of Noverco Inc, which owns 100.0% of Gaz Métro Inc, which owns 71.0% of Gaz Métro Limited Partnership.
7. Trust No. 2431 (ICA Operadora de Vias Terrestres, S.A.P.I. de C.V.) owns 49.0% of ICA Operadora de Vias Terrestres, S.A.P.I. de C.V.
8. Constituted in the Cayman Islands in accordance with the limited partner structure.
9. Constituted in Canada.

INTERESTS IN OTHER ENTITIES (cont.)

JOINT VENTURES

The following table presents the ownership interests held in the main joint ventures as at December 31, 2016 as well as the comparative ownership interests as at December 31, 2015:

	Principal place of business	December 31, 2016 Ownership interest %	December 31, 2015 Ownership interest %
Consumer discretionary			
MED ParentCo LP	United States	**47.7**	47.7
Energy			
HEF HoldCo II, Inc	United States	**33.3**	33.3
Southern Star Acquisition Corporation	United States	**50.0**	50.0

ASSOCIATES

The following table presents the ownership interests held in the main associates as at December 31, 2016 as well as the comparative ownership interests as at December 31, 2015:

	Principal place of business	December 31, 2016 Ownership interest %	December 31, 2015 Ownership interest %
Consumer discretionary			
SGU Holdings LP	United States[1]	**46.7**	46.7
Quebecor Media Inc	Canada	**18.9**	18.9
Energy			
Corex Resources Ltd	Canada	**44.9**	44.9
Interconnector UK Ltd	United Kingdom	**33.5**	33.5
NSW Electricity Networks Assets Holding Trust (TransGrid)	Australia	**22.5**	25.0
NSW Electricity Networks Operations Holding Trust (TransGrid)	Australia	**22.5**	25.0
Fluxys SA	Belgium	**20.0**	20.0
Azure Power Global Ltd	India[2]	**20.7**	–
Finance			
Catalina Holdings (Bermuda) Ltd	United States[3]	**29.9**	29.9
Greenstone Ltd	Australia	**30.0**	–
Industry			
CAMSO Inc	Canada	**19.5**	32.5
Groupe Keolis SAS	France	**30.0**	30.0
Sedgwick Inc	United States	**29.2**	–
QPH Hold Trust, Hold Co PTY Limited (Port of Brisbane)	Australia	**26.7**	26.7
Airport Holding Kft	Hungary	**21.2**	20.2
Health care			
Image Networks Holdings Pty Ltd	Australia	**30.0**	30.0
Utilities			
London Array Ltd, London Array Unincorporated JV	United Kingdom	**25.0**	25.0
IPALCO Enterprises, Inc	United States	**30.9**	24.9
Real estate services			
Groupe Foncia	France	**29.1**	–
Rail transport			
Bombardier Transportation (Investment) UK Limited	Germany[4]	**30.0**	–

1. Constituted in Canada.
2. Constituted in Mauritius.
3. Constituted in Bermuda in accordance with the limited partner structure.
4. Constituted in the United Kingdom.

INTERESTS IN OTHER ENTITIES (cont.)

NON-CONTROLLED STRUCTURED ENTITIES

La Caisse holds interests in non-controlled structured entities, the majority of which represent private investment funds or limited partnerships. The interests held by la Caisse do not give it power over the relevant activities of these entities, as control is established by contractual agreement in favour, generally, of a general partner or administrator. The maximum exposure to loss attributable to the various interests held in the main non-controlled structured entities is limited to the fair value of the investment held by la Caisse, i.e., $26,270 million in 282 companies as at December 31, 2016 ($24,013 million in 267 companies as at December 31, 2015).

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COMMITMENTS AND CONTINGENCIES

Given the nature of its activities, la Caisse enters into various investment purchase commitments that will be settled in the coming fiscal years in accordance with the terms and conditions in the related agreements.

For la Caisse, guarantees and loan guarantees consist in providing guarantees to financial institutions and corporations regarding future income deriving from the sale of investments and transactions on derivative financial instruments as well as repayment of borrowings by investee companies. The maturities of the commitments are presented in Note 12.

The commitments are as follows:

	December 31, 2016	December 31, 2015
Investment purchase commitments	**16,097**	18,716
Commitments under operating leases	**211**	239
Guarantees and loan guarantees	**113**	154
ABTN funding facility	**6,167**	6,167
	22,588	25,276

LITIGATION

In the normal course of business, la Caisse may be subject to legal actions. Although la Caisse cannot predict the outcomes of any ongoing legal proceedings as at December 31, 2016, it has no reason to believe that the settlement of one of these proceedings could have a material impact on its financial position.

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SUPPLEMENTARY INFORMATION

The following tables present the financial information of the specialized portfolios:

	SHORT TERM INVESTMENTS (740)		BONDS (760)		LONG TERM BONDS (764)		REAL ESTATE DEBT (750)	
Statement of financial position	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Assets								
Investments	**6,157**	4,888	**100,599**	95,332	**3,299**	2,776	**11,654**	11,015
Other financial assets	**–**	–	**3,680**	2,408	**694**	437	**162**	342
Total assets	**6,157**	4,888	**104,279**	97,740	**3,993**	3,213	**11,816**	11,357
Liabilities								
Investment liabilities	**–**	–	**34,685**	28,751	**670**	407	**55**	–
Other financial liabilities	**3**	305	**1,627**	1,281	**690**	422	**225**	269
Total liabilities excluding net assets attributable to holders of participation units	**3**	305	**36,312**	30,032	**1,360**	829	**280**	269
Net assets attributable to holders of participation units	**6,154**	4,583	**67,967**	67,708	**2,633**	2,384	**11,536**	11,088

Statement of comprehensive income	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Investment income	**27**	50	**1,995**	2,157	**73**	74	**207**	384
Investment expense	**–**	–	**(277)**	(291)	**–**	(1)	**–**	–
Net investment income	**27**	50	**1,718**	1,866	**73**	73	**207**	384
Operating expenses	**–**	(1)	**(67)**	(61)	**(1)**	(1)	**(1)**	(2)
Net income	**27**	49	**1,651**	1,805	**72**	72	**206**	382
Net realized gains (losses)	**–**	–	**1,363**	594	**191**	32	**(54)**	(13)
Net unrealized gains (losses)	**–**	–	**(1,099)**	(8)	**(230)**	2	**130**	167
Net gains (losses) on financial instruments at fair value	**–**	–	**264**	586	**(39)**	34	**76**	154
Net investment result before distributions to (recoveries from) holders of participation units	**27**	49	**1,915**	2,391	**33**	106	**282**	536
(Distributions) recoveries	**(27)**	(49)	**(1,651)**	(1,805)	**(72)**	(72)	**(206)**	(382)
Comprehensive income attributable to holders of participation units	**–**	–	**264**	586	**(39)**	34	**76**	154

Statement of changes in net assets attributable to holders of participation units	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Balance at beginning of the year	**4,583**	6,825	**67,708**	62,711	**2,384**	2,202	**11,088**	10,327
Participation units								
Units issued	**7,105**	5,948	**7,021**	8,640	**503**	311	**2,136**	1,162
Units cancelled	**(5,534)**	(8,190)	**(7,026)**	(4,229)	**(215)**	(163)	**(1,764)**	(555)
Net change in participation units for the year	**1,571**	(2,242)	**(5)**	4,411	**288**	148	**372**	607
Comprehensive income attributable to holders of participation units	**–**	–	**264**	586	**(39)**	34	**76**	154
Balance at end of the year	**6,154**	4,583	**67,967**	67,708	**2,633**	2,384	**11,536**	11,088

SUPPLEMENTARY INFORMATION (cont.)

	REAL RETURN BONDS (762)		INFRASTRUCTURE (782)		REAL ESTATE (710)		EQUITY MARKETS (737)[1]	
Statement of financial position								
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
Assets								
Investments	**1,135**	1,095	**14,603**	15,514	**31,807**	26,998	**100,843**	88,900
Other financial assets	**2**	150	**93**	430	**27**	7	**3,958**	2,785
Total assets	**1,137**	1,245	**14,696**	15,944	**31,834**	27,005	**104,801**	91,685
Liabilities								
Investment liabilities	**–**	149	**46**	2,981	**72**	49	**2,724**	105
Other financial liabilities	**52**	7	**87**	415	**38**	2	**1,037**	314
Total liabilities excluding net assets attributable to holders of participation units	**52**	156	**133**	3,396	**110**	51	**3,761**	419
Net assets attributable to holders of participation units	**1,085**	1,089	**14,563**	12,548	**31,724**	26,954	**101,040**	91,266

Statement of comprehensive income								
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
Investment income	**21**	17	**671**	860	**1,511**	86	**2,487**	2,114
Investment expense	**–**	–	**(11)**	(13)	**–**	–	**(52)**	(30)
Net investment income	**21**	17	**660**	847	**1,511**	86	**2,435**	2,084
Operating expenses	**(1)**	(1)	**(64)**	(54)	**(10)**	(11)	**(117)**	(114)
Net income	**20**	16	**596**	793	**1,501**	75	**2,318**	1,970
Net realized gains (losses)	**13**	7	**466**	(979)	**228**	(140)	**7,041**	4,301
Net unrealized gains (losses)	**(3)**	6	**356**	891	**1,237**	3,117	**(669)**	3,487
Net gains (losses) on financial instruments at fair value	**10**	13	**822**	(88)	**1,465**	2,977	**6,372**	7,788
Net investment result before distributions to (recoveries from) holders of participation units	**30**	29	**1,418**	705	**2,966**	3,052	**8,690**	9,758
(Distributions) recoveries	**(20)**	(16)	**(596)**	(793)	**(1,501)**	(75)	**(2,318)**	(1,970)
Comprehensive income attributable to holders of participation units	**10**	13	**822**	(88)	**1,465**	2,977	**6,372**	7,788

Statement of changes in net assets attributable to holders of participation units								
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
Balance at beginning of the year	**1,089**	980	**12,548**	9,753	**26,954**	22,858	**91,266**	84,334
Participation units								
Units issued	**91**	181	**2,736**	3,796	**3,633**	1,241	**10,024**	10,840
Units cancelled	**(105)**	(85)	**(1,543)**	(913)	**(328)**	(122)	**(6,622)**	(11,696)
Net change in participation units for the year	**(14)**	96	**1,193**	2,883	**3,305**	1,119	**3,402**	(856)
Comprehensive income attributable to holders of participation units	**10**	13	**822**	(88)	**1,465**	2,977	**6,372**	7,788
Balance at end of year	**1,085**	1,089	**14,563**	12,548	**31,724**	26,954	**101,040**	91,266

1. On January 1, 2016, the specialized equity portfolios were combined into the new Equity Markets specialized portfolio. Consequently, the financial information as at December 31, 2015 has been presented to reflect this grouping of specialized portfolios.

SUPPLEMENTARY INFORMATION (cont.)

	PRIVATE EQUITY (780)		ASSET ALLOCATION (771)		ABTN (772)		ACTIVE OVERLAY STRATEGIES (773)	
Statement of financial position								
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
Assets								
Investments	**30,754**	26,972	**3,536**	2,049	**3,970**	4,612	**6,718**	9,097
Other financial assets	**24**	52	**697**	707	**92**	11	**720**	215
Total assets	**30,778**	27,024	**4,233**	2,756	**4,062**	4,623	**7,438**	9,312
Liabilities								
Investment liabilities	**343**	919	**2,796**	453	**3,814**	4,490	**6,796**	8,795
Other financial liabilities	**475**	527	**81**	504	**91**	33	**13**	53
Total liabilities excluding net assets attributable to holders of participation units	**818**	1,446	**2,877**	957	**3,905**	4,523	**6,809**	8,848
Net assets attributable to holders of participation units	**29,960**	25,578	**1,356**	1,799	**157**	100	**629**	464
Statement of comprehensive income								
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
Investment income	**2,212**	2,071	**96**	41	**133**	103	**64**	43
Investment expense	**(15)**	(62)	**(30)**	(7)	**(37)**	(69)	**(71)**	(76)
Net investment income	**2,197**	2,009	**66**	34	**96**	34	**(7)**	(33)
Operating expenses	**(149)**	(82)	**(10)**	(8)	**–**	(1)	**(44)**	(59)
Net income	**2,048**	1,927	**56**	26	**96**	33	**(51)**	(92)
Net realized gains (losses)	**495**	(2,325)	**(392)**	434	**(8)**	(1,144)	**276**	(1,003)
Net unrealized gains (losses)	**1,042**	2,226	**13**	(120)	**52**	1,183	**(197)**	1,137
Net gains (losses) on financial instruments at fair value	**1,537**	(99)	**(379)**	314	**44**	39	**79**	134
Net investment result before distributions to (recoveries from) holders of participation units	**3,585**	1,828	**(323)**	340	**140**	72	**28**	42
(Distributions) recoveries	**(2,048)**	(1,927)	**(56)**	(26)	**(96)**	(33)	**51**	92
Comprehensive income attributable to holders of participation units	**1,537**	(99)	**(379)**	314	**44**	39	**79**	134
Statement of changes in net assets attributable to holders of participation units								
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
Balance at beginning of the year	**25,578**	22,244	**1,799**	1,593	**100**	27	**464**	541
Participation units								
Units issued	**6,818**	4,609	**1,105**	988	**13**	34	**373**	225
Units cancelled	**(3,973)**	(1,176)	**(1,169)**	(1,096)	**–**	–	**(287)**	(436)
Net change in participation units for the year	**2,845**	3,433	**(64)**	(108)	**13**	34	**86**	(211)
Comprehensive income attributable to holders of participation units	**1,537**	(99)	**(379)**	314	**44**	39	**79**	134
Balance at end of the year	**29,960**	25,578	**1,356**	1,799	**157**	100	**629**	464

FINANCIAL CERTIFICATE OF THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

I, Michael Sabia, President and Chief Executive Officer of la Caisse de dépôt et placement du Québec, certify that:

1. **Review:** I have reviewed the consolidated financial statements, the tables of returns, the press release announcing the annual results and the Annual Report (hereafter referred to as the "Annual Filings") of Caisse de dépôt et placement du Québec ("la Caisse") for the year ended December 31, 2016.

2. **No false or misleading information:** To the best of my knowledge, having exercised reasonable diligence, the Annual Filings do not contain any untrue statement of a material fact or omit to state any material fact that is required to be stated or necessary to make a statement that is not misleading in light of the circumstances in which it was made, with respect to the period covered by the Annual Filings.

3. **Fair presentation:** To the best of my knowledge, having exercised reasonable diligence, the consolidated financial statements and the other financial information included in the Annual Filings present fairly, in all material respects, the financial position of la Caisse as at the closing dates of the periods presented in the Annual Filings, as well as its comprehensive income, changes in net assets attributable to depositors, and cash flows for those years.

4. **Responsibility:** I am responsible for the establishment and maintenance of disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR) for la Caisse.

5. **Design:** Subject to the limitations, if any, described in paragraphs 5.2 and 5.3, at fiscal year-end, I have:

   a) Designed, or caused to be designed under my supervision, DC&P to provide reasonable assurance that:

      i) Material information relating to la Caisse is made known to me by others, particularly during the period in which the Annual Filings are prepared.

      ii) Information required to be disclosed by la Caisse in its Annual Filings filed or submitted by it under the legislation is recorded, processed, summarized and reported within the time periods prescribed by the legislation.

   b) Designed, or caused to be designed under my supervision, ICFR to provide reasonable assurance that financial information is reliable and that the consolidated financial statements have been prepared, with a view to publication of financial information, in accordance with International Financial Reporting Standards (IFRS).

5.1. **Control framework:** The control framework that I have used to design the ICFR is that proposed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO 2013).

5.2. **ICFR material weakness relating to design:** Not applicable.

5.3. **Limitation of scope and design:** Not applicable.

6. **Evaluation:** I have:

   a) Evaluated or caused to be evaluated under my supervision, the effectiveness of the DC&P of la Caisse at fiscal year-end and la Caisse disclosed in its Annual Report my conclusions based on this evaluation.

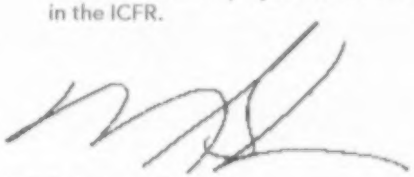
   b) Evaluated or caused to be evaluated under my supervision, the effectiveness of the ICFR of la Caisse at fiscal year-end and la Caisse disclosed in its Annual Report the following information:

      i) My conclusions about the effectiveness of the ICFR at fiscal year-end based on that evaluation.

      ii) Description of any material weaknesses relating to current operation at fiscal year-end: Not applicable.

7. **Reporting changes to the ICFR:** La Caisse disclosed in its Annual Report any change made to the ICFR that occurred during the accounting period beginning on January 1, 2016 and ending on December 31, 2016 that has had, or is likely to have, a material impact on the ICFR.

8. **Reporting to co-auditors and the Board of Directors or Audit Committee of la Caisse:** I have disclosed, based on our most recent valuation of the ICFR, to the co-auditors and the Board of Directors of la Caisse or its Audit Committee, any fraud that involves management or other employees who have a significant role in the ICFR.



MICHAEL SABIA
President and Chief Executive Officer

April 7, 2017

FINANCIAL CERTIFICATE OF THE EXECUTIVE VICE-PRESIDENT AND CHIEF FINANCIAL OFFICER

I, Maarika Paul, Executive Vice-President and Chief Financial Officer of la Caisse de dépôt et placement du Québec, certify that:

1. **Review:** I have reviewed the consolidated financial statements, the tables of returns, the press release announcing the annual results and the Annual Report (hereafter referred to as the "Annual Filings") of Caisse de dépôt et placement du Québec ("la Caisse") for the year ended December 31, 2016.

2. **No false or misleading information:** To the best of my knowledge, having exercised reasonable diligence, the Annual Filings do not contain any untrue statement of a material fact or omit to state any material fact that is required to be stated or necessary to make a statement that is not misleading in light of the circumstances in which it was made, with respect to the period covered by the Annual Filings.

3. **Fair presentation:** To the best of my knowledge, having exercised reasonable diligence, the consolidated financial statements and the other financial information included in the Annual Filings present fairly, in all material respects, the financial position of la Caisse as at the closing dates of the periods presented in the Annual Filings, as well as its comprehensive income, changes in net assets attributable to depositors, and cash flows for those years.

4. **Responsibility:** I am responsible for the establishment and maintenance of disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR) for la Caisse.

5. **Design:** Subject to the limitations, if any, described in paragraphs 5.2 and 5.3, at fiscal year-end, I have:
   a) Designed, or caused to be designed under my supervision, DC&P to provide reasonable assurance that:
      i) Material information relating to la Caisse is made known to me by others, particularly during the period in which the Annual Filings are prepared.
      ii) Information required to be disclosed by la Caisse in its Annual Filings filed or submitted by it under the legislation is recorded, processed, summarized and reported within the time periods prescribed by the legislation.
   b) Designed, or caused to be designed under my supervision, ICFR to provide reasonable assurance that financial information is reliable and that the consolidated financial statements have been prepared, with a view to publication of financial information, in accordance with International Financial Reporting Standards (IFRS).

5.1. **Control framework:** The control framework that I have used to design the ICFR is that proposed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO 2013).

5.2. **ICFR material weakness relating to design:** Not applicable.

5.3. **Limitation of scope and design:** Not applicable.

6. **Evaluation:** I have:
   a) Evaluated or caused to be evaluated under my supervision, the effectiveness of the DC&P of la Caisse at fiscal year-end and la Caisse disclosed in its Annual Report my conclusions based on this evaluation.
   b) Evaluated or caused to be evaluated under my supervision, the effectiveness of the ICFR of la Caisse at fiscal year-end and la Caisse disclosed in its Annual Report the following information:
      i) My conclusions about the effectiveness of the ICFR at fiscal year-end based on that evaluation.
      ii) Description of any material weaknesses relating to current operation at fiscal year-end: Not applicable.

7. **Reporting changes to the ICFR:** La Caisse disclosed in its Annual Report any change made to the ICFR that occurred during the accounting period beginning on January 1, 2016 and ending on December 31, 2016 that has had, or is likely to have, a material impact on the ICFR.

8. **Reporting to co-auditors and the Board of Directors or Audit Committee of la Caisse:** I have disclosed, based on our most recent valuation of the ICFR, to the co-auditors and the Board of Directors of la Caisse or its Audit Committee, any fraud that involves management or other employees who have a significant role in the ICFR.

Maarika Paul

MAARIKA PAUL, FCPA, FCA, CBV, ICD.D
Executive Vice-President and Chief Financial Officer

April 7, 2017

CONCLUSIONS ABOUT THE DESIGN AND EFFECTIVENESS OF INTERNAL CONTROL OVER FINANCIAL REPORTING

In 2016, the Chief Financial Officer oversaw work to update existing documentation and to evaluate the design and effectiveness of internal control over financial reporting, and the Executive Committee approved the methodology for evaluating key controls. The purpose of this evaluation of internal control over the main financial processes was to ensure that la Caisse could meet its quality objectives related to financial reporting, in all material respects.

The evaluation of the design and effectiveness of internal control over financial reporting was carried out with the framework usually adopted by North American companies, namely that of the Committee of Sponsoring Organizations of the Treadway Commission (COSO 2013). This work enabled the Executive Committee to conclude that the design of control over financial reporting is adequate and effective, and that it provides reasonable assurance that the financial information presented in the Annual Filings, as defined by la Caisse's Financial Certification Policy, is reliable, and that la Caisse's consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS).

CONCLUSIONS ABOUT THE DESIGN AND EFFECTIVENESS OF FINANCIAL REPORTING CONTROLS AND PROCEDURES

Under la Caisse's Financial Certification Policy, the design and effectiveness of disclosure controls and procedures pertaining to the Annual Filings, namely the consolidated financial statements, the tables of returns, the press release announcing the annual results and the Annual Report, must be evaluated.

As with the evaluation of internal control over financial reporting, the Chief Financial Officer also oversaw efforts to update existing documentation and to evaluate the design and effectiveness of disclosure controls and procedures, and the Executive Committee also approved the methodology for evaluating key controls.

As at December 31, 2016, the evaluation confirmed that the disclosure controls and procedures are adequate and effective, and provide reasonable assurance that all relevant information is gathered and submitted in a timely fashion to senior executives, in particular to the President and Chief Executive Officer and to the Chief Financial Officer, so as to ensure that appropriate decisions concerning disclosure can be made.

The Board of Directors also approved the 2016 Annual Filings before their public disclosure.

GENERAL NOTES

1. La Caisse's operations comply with the requirements of the Act respecting the Caisse de dépôt et placement du Québec[1] and investment industry practices. Its financial statements are prepared in accordance with International Financial Reporting Standards. Each year, la Caisse's co-auditors, the Auditor General of Québec and Ernst & Young LLP, audit the financial statements, the compliance of operations with laws, regulations, policies and guidelines, to the extent they deem appropriate.

2. The 2016 Annual Report Additional Information is an integral part of the 2016 Annual Report and presents, in the first section, the Tables of Returns as at December 31, 2016, for composites of la Caisse's depositors' accounts. These tables and calculations have been audited as at December 31, 2016 by Deloitte LLP for compliance with the Global Investment Performance Standards (GIPS®).

3. In this Annual Report, depositors' net assets and net investment results are defined as being in the consolidated financial statements net assets attributable to depositors and net investment results before distributions to depositors.

4. The returns of the specialized portfolios use the time-weighted rate-of-return formula.

5. The benchmark indexes for the asset classes and overall portfolio are based on the weighted average of the benchmark indexes for the specialized portfolios that comprise them.

6. Unless otherwise stated, returns, which are expressed as a percentage, are presented net of transaction fees, external management fees of investment funds and expenses of nonconsolidated real estate subsidiaries, but before operating expenses and other fees. They are annualized for periods of more than one year. They include the return on cash and cash equivalents and they take into account any foreign exchange hedging. The ratio of operating expenses to the average net assets of each specialized portfolio is presented in the notes in the 2016 Annual Report Additional Information.

7. Unless otherwise stated, net investment results before distributions to depositors and net assets attributable to depositors are presented net of operating expenses and other fees.

8. Some returns are expressed in basis points (b.p.). One hundred basis points equal 1.00% and one basis point equals 0.01%.

9. Unless otherwise stated, all figures are in Canadian dollars. The letters M and B used with dollar amounts designate millions and billions, respectively.

10. Totals (figures or percentages) may vary because of rounding of figures.

11. Unless otherwise stated, all data in the tables and figures are from studies carried out by la Caisse.

12. The tables listing the top 10 investments present, in alphabetical order, the main cash positions based on information shown in Tables 8, 9, 10 and 11 of the 2016 Annual Report Additional Information.

13. To determine whether an asset is classified as a Québec investment, la Caisse uses the location of the head office of the company or of the issuer or, in the case of real estate, the location of the property.

    This classification system is widely used in the fund management industry but involves biases. Some companies are included even though their core operations are outside Québec. Similarly, companies with extensive operations in Québec are excluded if their head office is outside the province.

1. The Act respecting the Caisse de dépôt et placement du Québec is available on the Caisse website at www.cdpq.com.

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The 2016 Annual Report and the 2016 Annual Report Additional Information are available on our website at www.cdpq.com.
For information: 514 842-3261, info@cdpq.com
Le Rapport annuel 2016 et le document Renseignements additionnels au rapport annuel 2016 sont aussi accessibles en français sur notre site Web: www.cdpq.com
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